Book-Entry-Only **Ratings: See "Ratings" herein**
NEW ISSUE

In the opinion of Bond Counsel for the Series 2010 Bonds, interest on the Series 2010 Bonds is exempt from Kentucky income tax and the Series 2010 Bonds are exempt from ad valorem taxation by the Commonwealth of Kentucky and any of its political subdivisions. HOWEVER, INTEREST ON THE SERIES 2010 BONDS IS NOT EXCLUDIBLE FROM GROSS INCOME FOR FEDERAL INCOME TAX PURPOSES. See "TAX MATTERS" herein.

$3,430,000
COMMONWEALTH OF KENTUCKY
STATE PROPERTY AND BUILDINGS COMMISSION
TAXABLE AGENCY FUND REVENUE BONDS, PROJECT NO. 97

Dated: Date of delivery **Due: June 1, as shown below**

The Taxable Agency Fund Revenue Bonds, Project No. 97 (the "Series 2010 Bonds") will be issued only as fully registered bonds, and when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Series 2010 Bonds. Purchasers will not receive certificates representing their ownership interest in the Series 2010 Bonds purchased. So long as DTC or its nominee is the registered owner of the Series 2010 Bonds, payments of the principal of and interest due on the Series 2010 Bonds will be made directly to DTC. The Series 2010 Bonds will be issued in denominations of $5,000 or any integral multiple thereof, and will bear interest payable on each June 1 and December 1, commencing on December 1, 2010. Principal of, redemption premium, if any, and interest on the Series 2010 Bonds will be paid directly to DTC by The Bank of New York Mellon Trust Company, N.A., as Trustee and Paying Agent.

The Series 2010 Bonds mature on the dates, in the principal amounts, bear interest at the rates per annum, have the prices and have the CUSIP numbers, as follows:

Year of Maturity June 1	Amount	Interest Rate	Price	CUSIP†	Year of Maturity June 1	Amount	Interest Rate	Price	CUSIP†
2011	$180,000	1.25%	100%	49151E 5Q2	2019	$230,000	4.40%	100%	49151E 5Y5
2012	185,000	1.70%	100%	49151E 5R0	2020	240,000	4.65%	100%	49151E 5Z2
2013	190,000	2.10%	100%	49151E 5S8	2021	250,000	4.85%	100%	49151E 6A6
2014	190,000	2.75%	100%	49151E 5T6	2022	260,000	4.95%	100%	49151E 6B4
2015	200,000	3.15%	100%	49151E 5U3	2023	275,000	5.10%	100%	49151E 6C2
2016	205,000	3.55%	100%	49151E 5V1	2024	290,000	5.30%	100%	49151E 6D0
2017	210,000	3.90%	100%	49151E 5W9	2025	305,000	5.45%	100%	49151E 6E8
2018	220,000	4.10%	100%	49151E 5X7					

The Series 2010 Bonds are subject to redemption prior to maturity as described herein.

The Series 2010 Bonds are being issued by the State Property and Buildings Commission (the "Commission"), an independent agency of the Commonwealth of Kentucky (the "Commonwealth"), at the request of the Finance and Administration Cabinet of the Commonwealth (the "Cabinet"), pursuant to a Bond Resolution adopted by the Commission on March 15, 2010 to (i) pay the cost of construction of a hangar at Bluegrass Station, Lexington, Kentucky, for the benefit of the Kentucky Department of Military Affairs (the "State Agency"), (ii) make the required deposit into the Debt Service Reserve Fund (as defined herein) and (iii) pay the costs of issuing the Series 2010 Bonds. See "THE PROJECT" herein.

THE SERIES 2010 BONDS ARE SPECIAL AND LIMITED OBLIGATIONS OF THE COMMISSION. THE SERIES 2010 BONDS DO NOT CONSTITUTE A DEBT, LIABILITY, OR OBLIGATION OF THE COMMONWEALTH, OR A PLEDGE OF THE FULL FAITH AND CREDIT OR TAXING POWER OF THE COMMONWEALTH, BUT ARE PAYABLE SOLELY FROM AMOUNTS DEPOSITED IN CERTAIN FUNDS AND ACCOUNTS CREATED BY THE RESOLUTION AND FROM RENTAL INCOME DERIVED FROM THE BIENNIALLY RENEWABLE LEASE (AS DESCRIBED AND DEFINED HEREIN) WITH THE CABINET AND THE STATE AGENCY, THE RENT FROM WHICH IS SUBJECT TO AGENCY FUND APPROPRIATION BY THE GENERAL ASSEMBLY OF THE COMMONWEALTH ON A BIENNIAL BASIS. THE BONDHOLDERS HAVE NO SECURITY INTEREST IN ANY PROPERTIES CONSTITUTING THE PROJECT OR ANY AMOUNTS DERIVED THEREFROM. See "SECURITY FOR THE SERIES 2010 BONDS" herein.

The Series 2010 Bonds are offered when, as and if issued and accepted by the Underwriters, subject to the approving legal opinion of Peck, Shaffer & Williams LLP, Covington, Kentucky, Bond Counsel. Certain legal matters will be passed on for the Underwriters by their counsel, Rubin & Hays, Louisville, Kentucky. It is expected that delivery of the Series 2010 Bonds will be made on or about July 22, 2010, in New York, New York, through the facilities of DTC, against payment therefor.

MORGAN KEEGAN & COMPANY, INC.

Dated: July 8, 2010

COMMONWEALTH OF KENTUCKY
STATE PROPERTY AND BUILDINGS COMMISSION

Members

STEVEN L. BESHEAR
Governor
(Chairman of the Commission)

DANIEL MONGIARDO
Lieutenant Governor

JACK CONWAY
Attorney General

JONATHAN MILLER
Secretary
Finance and Administration Cabinet
(Executive Director of the Commission)

LARRY M. HAYES
Secretary
Cabinet for Economic Development

MARY E. LASSITER
State Budget Director

EDGAR C. ROSS
State Controller

F. THOMAS HOWARD
Executive Director
Office of Financial Management
(Secretary to the Commission)

This Official Statement does not constitute an offer to sell the Series 2010 Bonds to any person, or the solicitation of an offer from any person to buy the Series 2010 Bonds, in any jurisdiction where such offer or such solicitation of an offer to buy would be unlawful. The information set forth herein is provided by the Commonwealth of Kentucky from sources which are believed to be reliable, but it is not guaranteed as to accuracy or completeness and is not to be construed as a representation of the Underwriter. No dealer, salesman or any other person has been authorized to give any information or to make any representation, other than those contained in this Official Statement, in connection with the offering contained herein, and, if given or made, such information or representation must not be relied upon as having been authorized by the Commonwealth of Kentucky or the Underwriter. The information and expressions of opinion contained herein are subject to change without notice, and neither the delivery of this Official Statement nor the sale of any Series 2010 Bonds shall, under any circumstances, create any implication that there has been no change in the matters described herein since the date hereof. The Official Statement is submitted in connection with the issuance of the Series 2010 Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION OR AUTHORITY, NOR HAS SUCH FEDERAL OR ANY STATE SECURITIES COMMISSION OR AUTHORITY PASSED UPON THE ACCURACY OR ADEQUACY OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH TEND TO STABILIZE OR MAINTAIN THE MARKET PRICE FOR THE SERIES 2010 BONDS ABOVE THE LEVELS WHICH WOULD OTHERWISE PREVAIL. SUCH ACTIVITIES, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

The Underwriter has provided the following sentence for inclusion in this Official Statement:

THE UNDERWRITER HAS REVIEWED THE INFORMATION IN THIS OFFICIAL STATEMENT IN ACCORDANCE WITH, AND AS PART OF, ITS RESPONSIBILITIES TO INVESTORS UNDER THE FEDERAL SECURITIES LAWS AS APPLIED TO THE FACTS AND CIRCUMSTANCES OF THIS TRANSACTION, BUT THE UNDERWRITER DOES NOT GUARANTEE THE ACCURACY OR COMPLETENESS OF SUCH INFORMATION.

† As indicated on the cover page hereof, Copyright 2010, American Bankers Association, CUSIP data herein are provided by Standard & Poor's, CUSIP Service Bureau, a Division of The McGraw-Hill Companies, Inc. The CUSIP numbers listed are being provided solely for the convenience of the bondholders only at the time of issuance of the Series 2010 Bonds and the Commission does not make any representation with respect to such numbers or undertake any responsibility for their accuracy now or at any time in the future. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Series 2010 Bonds as a result of various subsequent actions, including, but not limited to, a refunding in whole or in part of such maturity or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Series 2010 Bonds.

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SUMMARY

The following information is furnished solely to provide limited introductory information regarding the Commission and the Series 2010 Bonds and does not purport to be comprehensive. Such information is qualified in its entirety by reference to the more detailed information and descriptions appearing elsewhere in this Official Statement and should be read together therewith. The terms used in this Summary and not otherwise defined shall have the respective meanings assigned to them elsewhere in this Official Statement. The offering of the Series 2010 Bonds is made only by means of the entire Official Statement, including the Exhibits hereto. No person is authorized to make offers to sell, or solicit offers to buy, the Series 2010 Bonds unless the entire Official Statement is delivered in connection therewith.

The Commission

The State Property and Buildings Commission (the "Commission") is an independent agency of the Commonwealth of Kentucky (the "Commonwealth"). See "THE STATE PROPERTY AND BUILDINGS COMMISSION".

The Offering

The Commission is offering its $3,430,000 Taxable Agency Fund Revenue Bonds, Project No. 97 (the "Series 2010 Bonds").

Authority

The Series 2010 Bonds are being issued pursuant to the provisions of the Constitution and laws of the Commonwealth, including particularly Chapters 56 and 58 of the Kentucky Revised Statutes ("KRS") and a resolution (the "Resolution") adopted by the Commission on March 15, 2010 (i) authorizing the issuance of the Series 2010 Bonds and (ii) approving a Lease Agreement dated as of July 1, 2010 (the "Lease"), by and among the Commission, as lessor, and the Finance and Administration Cabinet of the Commonwealth (the "Cabinet") and the Kentucky Department of Military Affairs (the "State Agency"), jointly as lessee.

Use of Proceeds

The Series 2010 Bonds are being issued to provide funds with which to (i) pay certain costs of the Project, as described herein, (ii) make the required deposit into the Debt Service Reserve Fund (as defined herein) and (iii) pay the costs of issuing the Series 2010 Bonds.

Security

The Series 2010 Bonds and the interest thereon are payable solely from the Revenues (as defined herein) to be derived from the rental payments of the Cabinet and the State Agency to the Commission under the Lease. The payments under the

Lease are secured by State Agency Revenues (as defined herein). See "SECURITY FOR THE SERIES 2010 BONDS" and "SUMMARIES OF THE PRINCIPAL DOCUMENTS - The Lease."

The Commission previously issued its $4,975,000 Taxable Agency Fund Revenue Bonds, Project No. 92 (the "Series 2008 Bonds"), of which $4,740,000 remain outstanding. The Series 2008 Bonds were issued to pay the costs of improvements to Bluegrass Station and the State Agency Revenues were pledged to the payment of rent under a Lease Agreement dated as of October 1, 2008 (the "2008 Lease") among the Cabinet and the State Agency, as lessees, and the Commission, as lessor. In addition, the Kentucky/Asset Liability Commission previously issued its Project Notes, 2005 Agency Fund Taxable First Series (the "Notes"), of which $9,640,000 remain outstanding. The Notes were issued to pay the costs of improvements at Bluegrass Station and the State Agency Revenues were pledged to the payment of rent under a Financing/Lease Agreement dated as of May 1, 2005 (the "2005 Lease") among the Cabinet and the State Agency, as lessees, and Kentucky/Asset Liability Commission, as lessor. The Lease constitutes a "Parity Obligation" under the 2008 Lease and the 2005 Lease.

The Series 2010 Bonds are further secured by amounts on deposit in the various funds and accounts established by the Resolution, including a Debt Service Reserve Fund or a Debt Service Reserve Guaranty (as defined herein), which is required to be maintained at a level equal to the maximum annual debt service requirement on the Series 2010 Bonds and all Additional Bonds, hereinafter defined, then outstanding (the "Reserve Fund Requirement"). The Commission will deposit, from proceeds of the Series 2010 Bonds, an amount equal to the initial Reserve Fund Requirement. See "SECURITY FOR THE SERIES 2010 BONDS" and "SUMMARY OF THE PRINCIPAL DOCUMENTS" herein.

The Series 2010 Bonds are not secured by a lien on any of the properties constituting the Project (defined in the Resolution as the Project and any other public project included from time to time in the Lease) or any amounts derived therefrom.

THE SERIES 2010 BONDS ARE SPECIAL AND LIMITED OBLIGATIONS OF THE COMMISSION. THE SERIES 2010 BONDS DO NOT CONSTITUTE A DEBT, LIABILITY, OR OBLIGATION OF THE COMMONWEALTH, OR A PLEDGE OF THE FULL FAITH AND CREDIT OR TAXING POWER OF THE COMMONWEALTH, BUT ARE PAYABLE SOLELY FROM AMOUNTS DEPOSITED IN CERTAIN FUNDS AND ACCOUNTS CREATED BY THE RESOLUTION AND FROM RENTAL INCOME DERIVED FROM THE BIENNIALLY RENEWABLE LEASE AGREEMENT WITH THE CABINET AND THE STATE AGENCY, THE RENT FROM WHICH IS SUBJECT TO APPROPRIATION BY THE GENERAL ASSEMBLY OF THE COMMONWEALTH ON A BIENNIAL BASIS. THE BONDHOLDERS HAVE NO SECURITY INTEREST IN ANY PROPERTIES CONSTITUTING THE PROJECT OR ANY AMOUNTS DERIVED THEREFROM.

Features of Series 2010 Bonds

The Series 2010 Bonds are being offered in the authorized denominations of $5,000 or any integral multiple thereof, with the maturities and at the interest rates and prices set forth on the cover page hereof. The Series 2010 Bonds, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York, which will act as securities depository for the Series 2010 Bonds. Purchasers will not receive certificates representing their ownership interest in the Series 2010 Bonds purchased. So long as DTC or its nominee is the registered owner of the Series 2010 Bonds, payments of the principal of, premium, if any, and interest due on the Series 2010 Bonds will be made directly to DTC.

The Series 2010 Bonds will bear interest payable on each June 1 and December 1, commencing on December 1, 2010 and any redemption date. Principal of, premium, if any, and interest on the Series 2010 Bonds will be paid directly to DTC by The Bank of New York Mellon Trust Company, N.A., as Trustee and Paying Agent (the "Trustee").

The Series 2010 Bonds maturing on and after June 1, 2021 are subject to redemption at the option of the Commission on or after June 1, 2020, in whole or in part at any time, at a redemption price equal to 100% of the principal amount of the Series 2010 Bonds to be redeemed, plus accrued interest to the date fixed for redemption. See "THE SERIES 2010 BONDS - Redemption Provisions."

It is expected that delivery of the Series 2010 Bonds will be made on or about July 22, 2010, in New York, New York, against payment therefor.

Tax Status

Interest on the Series 2010 Bonds is not excludible from gross income for Federal income tax purposes. Bond Counsel is of the opinion that interest on the Series 2010 Bonds is exempt from Kentucky income taxes and the Series 2010 Bonds are exempt from ad valorem taxation by the Commonwealth and any of its political subdivisions. See "TAX MATTERS" herein for a more complete discussion, and EXHIBIT C.

Additional Bonds

The Resolution authorizes the issuance of obligations having a pledge on the Revenues on a parity with the lien of the Series 2010 Bonds, which may be additional bonds issued in accordance with the requirements of the Resolution (the "Additional Bonds") or other obligations permitted by the Lease (the "Parity Obligations"). See "SECURITY FOR THE SERIES 2010 BONDS."

Continuing Disclosure

The Series 2010 Bonds are subject to Rule 15c2-12 under the Securities and Exchange Act of 1934, as amended. In general, the Rule prohibits an underwriter from purchasing or selling municipal securities in an initial offering unless it has determined that the issuer of such securities has committed to provide annually, certain information, including audited financial information, and notice of various events described in the Rule, if material. In order to enable the purchaser to comply with the provisions of the Rule, the Commission will enter into a Continuing Disclosure Agreement (the "Disclosure Agreement") with the Trustee.

General

The Official Statement speaks only as of its date, and the information contained herein is subject to change. All summaries of documents and agreements in the Official Statement are qualified in their entirety by reference to such documents and agreements, copies of which are available from the Office of Financial Management.

Information

Information regarding the Series 2010 Bonds is available by contacting the Office of Financial Management, 702 Capitol Avenue, Suite 76, Frankfort, Kentucky 40601, (502) 564-

2924 and the Underwriter, Morgan Keegan & Company, Inc., 489 East Main Street, Lexington, Kentucky 40507, (859) 232-8211.

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OFFICIAL STATEMENT

Relating to

$3,430,000
COMMONWEALTH OF KENTUCKY
STATE PROPERTY AND BUILDINGS COMMISSION
TAXABLE AGENCY FUND REVENUE BONDS, PROJECT NO. 97

INTRODUCTION

This Official Statement, including the cover page and the exhibits attached hereto, provides information in connection with the issuance and sale by the State Property and Buildings Commission (the "Commission"), an independent agency of the Commonwealth of Kentucky (the "Commonwealth"), of its $3,430,000 Taxable Agency Fund Revenue Bonds, Project No. 97 (the "Series 2010 Bonds") issued at the request of the Finance and Administration Cabinet of the Commonwealth (the "Cabinet") and the Kentucky Department of Military Affairs (the "State Agency") to provide funds with which to (i) pay certain costs of the Project (as described and defined herein under the caption "THE PROJECT "), (ii) make the required deposit into the Debt Service Reserve Fund (as defined herein) and (iii) pay the costs of issuing the Series 2010 Bonds.

The Series 2010 Bonds have been authorized and issued pursuant to the Constitution and laws of the Commonwealth, including particularly Chapters 56 and 58 of the Kentucky Revised Statutes ("KRS"). The Commission has adopted a Bond Resolution on March 15, 2010 (the "Resolution") authorizing the issuance of the Series 2010 Bonds and approving the Lease hereinafter described. The Resolution also authorizes the issuance of obligations on a parity with the lien of the Series 2010 Bonds, which may be additional bonds issued in accordance with the requirements of the Resolution (the "Additional Bonds").

The Lease Agreement dated as of July 1, 2010 among the Cabinet and the State Agency, each as lessee (collectively, the "Lessee"), and the Commission, as lessor (the "Lease") will provide the Commission with amounts to pay the principal of and interest on the Series 2010 Bonds as they become due. The current term of the Lease ends on June 30, 2012, and the Lease renews automatically (unless terminated in writing by the last business day of the preceding May by the Cabinet and the State Agency) for successive biennial periods to and including the biennial period which includes the final maturity of the Series 2010 Bonds. The Lease requires the Cabinet, for each biennial period during which Series 2010 Bonds are outstanding, to seek legislative appropriations to the Cabinet in amounts which are sufficient to permit the Cabinet to make rental payments to the Commission in amounts sufficient to pay principal of and interest on the Series 2010 Bonds (the "Rental Payments"). Under the Lease the Rental Payments are secured by State Agency Revenues (as defined herein). Pursuant to the Lease, the Lessee may authorize additional obligations (the "Parity Obligations") on a parity with the lien of the Lease on the State Agency Revenues. See "THE PROJECT" for more information regarding the Lease and "'THE STATE AGENCY" for more information regarding the State Agency Revenues and the expenditures of the State Agency.

The appropriations of the State Agency, from which payment of the principal of and interest on the Series 2010 Bonds are derived, are "Agency Fund" appropriations and not "General Fund" appropriations. See "SECURITY FOR THE SERIES 2010 BONDS."

The Commission has pledged to the payment of its obligations under the Resolution, payments to be received by the Commission from the Cabinet and the State Agency under the Lease. With the passage of House Bill 302 of the Regular Session of the 2010 Kentucky General Assembly ("House Bill 302") and subsequently House Bill 1 of the 2010 Extraordinary (Special) Session, funding has been approved for the State Agency having amounts projected to be sufficient to enable the State Agency to pay required Rental Payments through June 30, 2012. The required Rental Payments are sufficient to meet principal and interest requirements on the Series 2010 Bonds through June 30, 2012.

THE KENTUCKY GENERAL ASSEMBLY HAS NOT APPROPRIATED ANY AMOUNTS TO THE CABINET TO MAKE THE RENT PAYMENTS UNDER THE LEASE. THE ONLY CURRENT SOURCE OF PAYMENTS OF PRINCIPAL OF AND INTEREST ON THE SERIES 2010 BONDS ARE THE REVENUES OF THE STATE AGENCY.

In addition to amounts to be received by the Commission as rent under the Lease, a debt service reserve fund (the "Debt Service Reserve Fund") has been established under the Resolution as further security for the Bonds. The Debt Service Reserve Fund will be held by the Trustee (defined below). The Commission is required to maintain an amount equal to the maximum annual debt service requirement on the outstanding Bonds, as hereinafter defined (the "Reserve Fund Requirement") on deposit in the Debt Service Reserve Fund. If amounts on deposit in the Debt Service Reserve Fund are less than the Reserve Fund Requirement, the Cabinet and the State Agency are required to pay additional rent, under the Lease until the amount in the Debt Service Reserve Fund equals the Reserve Fund Requirement.

The Cabinet has covenanted to seek a General Fund appropriation at each future session of the General Assembly if the State Agency fails to pay rent and additional rent under the Lease, including restoring a deficiency in the Debt Service Reserve Fund.

THE GENERAL ASSEMBLY OF THE COMMONWEALTH IS UNDER NO OBLIGATION TO MAKE APPROPRIATIONS FOR RENTAL PAYMENTS TO THE CABINET OR THE STATE AGENCY NOR IS THE CABINET OR STATE AGENCY UNDER ANY OBLIGATION TO RENEW THE LEASE. THE BONDS ARE PAYABLE SOLELY FROM AND SECURED BY A PLEDGE OF RENTAL PAYMENTS UNDER THE LEASE AND ARE NOT SECURED BY ANY LIEN ON, OR INTEREST IN, THE PROPERTIES CONSTITUTING THE PROJECT OR ANY AMOUNTS DERIVED THEREFROM.

Brief descriptions of the Commonwealth, the Commission, the Resolution, the Bonds, the Lease, the State Agency, the Project and the Cabinet are included in this Official Statement. Capitalized terms not otherwise defined herein have the meanings assigned to them in the Resolution. All summaries of documents and agreements in this Official Statement are qualified in their entirety by reference to such documents and agreements, copies of which are available at the Office of Financial Management, 702 Capitol Avenue, Suite 76, Frankfort, Kentucky 40601 (502) 564-2924.

THE SERIES 2010 BONDS

General

The Series 2010 Bonds are issuable only as fully registered Bonds. The Series 2010 Bonds will be issuable in the denominations of $5,000 or integral multiples thereof, will be dated the date of their delivery, and will bear interest payable on each June 1 and December 1, commencing December 1, 2010 and on any redemption date, at the interest rates set forth on the cover page of this Official Statement. The Bank of New York Mellon Trust Company, N.A., is the trustee for the Bonds (the "Trustee").

Book-Entry-Only System

The Series 2010 Bonds initially will be issued solely in book-entry form to be held in the book-entry-only system maintained by The Depository Trust Company ("DTC"), New York, New York. So long as such book-entry system is used, only DTC will receive or have the right to receive physical delivery of Series 2010 Bonds and, except as otherwise provided herein with respect to tenders by Beneficial Owners of beneficial ownership interests, each as described in EXHIBIT B, Beneficial Owners will not be or be considered to be, and will not have any rights as, owners or holders of the Series 2010 Bonds under the Resolution. For additional information about DTC and the book-entry-only system see "EXHIBIT B - BOOK-ENTRY-ONLY SYSTEM."

Redemption Provisions

Optional Redemption. The Series 2010 Bonds maturing on or before June 1, 2020 are not subject to optional redemption prior to maturity. The Series 2010 Bonds maturing on and after June 1, 2021, are subject to redemption at the option of the Commission on or after June 1, 2020, in whole or in part, at any time, at a redemption price equal to 100% of the principal amount of the Series 2010 Bonds to be redeemed, plus accrued interest to the date fixed for redemption.

Notice of Redemption. At least thirty (30) days but not more than sixty (60) days before the date fixed for redemption of any Series 2010 Bonds, the Trustee shall cause a notice of redemption to be mailed, by regular United States first class mail, postage prepaid, to all owners of Series 2010 Bonds to be redeemed in whole or in part at their registered addresses. Failure to mail any notice or any defect therein in respect of any Series 2010 Bond shall not affect the validity of the redemption of any other Series 2010 Bond. Such redemption notice shall set forth the details with respect to the redemption. Any owner owning at least $1,000,000 in aggregate principal amount of the Series 2010 Bonds may request that a second copy of the notice of redemption be sent to a second address provided to the Trustee in writing. The notice of redemption shall set forth the complete title of the Series 2010 Bonds, the CUSIP numbers, the date of the issue, the serial numbers, the interest rate, the maturity date, the date fixed for redemption, the redemption price to be paid and, if less than all of the Series 2010 Bonds of any one maturity then Outstanding shall be called for redemption, the distinctive numbers and letters of such Series 2010 Bonds to be redeemed and, in the case of Series 2010 Bonds to be redeemed in part only, the portion of the principal amount thereof to be redeemed, and the place or places of redemption, including the name, address and phone number of a contact person. The notice of redemption shall also state that on the date fixed for redemption the redemption price will become due and payable upon each Series 2010 Bond or portion thereof so called for redemption prior to maturity, and that interest thereon shall cease to accrue from and after said date. With respect to an optional redemption of any Series 2010 Bonds, unless moneys sufficient to pay the principal of and interest on the Series 2010 Bonds to be redeemed shall have been received by the Trustee prior to the giving of such notice of redemption, such notice may, at the option of the Commission, state that said redemption shall be conditional upon the receipt of such moneys by the Trustee on or prior to the date fixed for redemption.

The Trustee also shall send a copy of such notice by registered or certified mail, overnight delivery service or electronic means for receipt not less than thirty-two (32) days before such redemption date to DTC, and at least two (2) national information services that disseminate notices of redemption of obligations such as the Series 2010 Bonds; provided however, that such mailing shall not be a condition precedent to such redemption and failure to mail any such notice shall not affect the validity of any proceedings for the redemption of Series 2010 Bonds.

A second notice of redemption shall be given within sixty (60) days after the date fixed for redemption in the manner required above to the registered owners of redeemed Series 2010 Bonds which have not been presented for payment within thirty (30) days after the date fixed for redemption.

Any notice mailed as provided above, shall be conclusively presumed to have been duly given upon mailing, whether or not the owner of such Series 2010 Bonds receives the notice. Upon the giving of notice and the deposit of funds for redemption, interest on the Series 2010 Bonds so called for redemption shall cease to accrue after the date fixed for redemption.

SECURITY FOR THE BONDS

The Commission has pledged to the payment of its obligations under the Resolution payments to be received by the Commission from the Cabinet and the State Agency pursuant to the Lease. The Kentucky General Assembly has approved funding for the State Agency having amounts projected to be sufficient to pay required rent under the Lease through June 30, 2012. The Rental Payments will be paid from State Agency Revenues and no funds have been appropriated directly to the Cabinet to enable the Cabinet to pay Rental Payments under the Lease. The required Rental Payments are sufficient to meet principal and interest requirements on the Series 2010 Bonds through June 30, 2012. The Lease will be automatically renewed unless written notice of the election by the Cabinet or the State Agency to not so renew is given to the Commission by the last business day of May prior to the beginning of the next succeeding biennial renewal term.

"State Agency Revenues" are defined in the Lease as the totality of all fees, service rates, rentals and charges of any and all types and varieties imposed, enforced and collected by the State Agency, together with other funds received by the State Agency, if any, from any agency of government, both federal and state, as representing income or operating subsidies, as distinguished from capital grants, to the extent not otherwise required to be treated and applied.

The appropriations of the State Agency, from which payment of the principal of and interest on the Bonds are derived, are "Agency Fund" appropriations and not "General Fund" appropriations. See "THE STATE AGENCY – Agency Fund Appropriations" for a discussion of the difference between Agency Fund appropriations and General Fund appropriations.

Although no funds have been appropriated from the General Fund to the Cabinet for the payment of Rental Payments or additional rent under the Lease, the Cabinet has covenanted in the Lease that it will seek a General Fund appropriation at each successive session of the General Assembly to pay any Rental Payments or additional rent if the State Agency fails to pay the Rental Payments or if there is a deficiency in the Debt Service Reserve Fund.

The proposed budgets for the Cabinet and the State Agency are submitted to the General Assembly of the Commonwealth every two years and are subject to the discretion and approval of each successive regular or extraordinary session of the General Assembly of the Commonwealth. There can be no assurance (i) that the Cabinet or the State Agency will include Rental Payments in future budgets submitted to the General Assembly, (ii) that the General Assembly will approve appropriations in amounts sufficient to enable the Cabinet or the State Agency to make Rental Payments under the Lease, or (iii) that the Governor, in the performance of his or her obligation to balance the Commonwealth's annual budget, will not reduce or eliminate any such appropriations. The only current source of funds for payment of Rental Payments under the Lease is State Agency Revenues.

The Bonds are also secured by certain other funds and accounts pledged therefor and described in the Resolution, including the Debt Service Reserve Fund. The Commission is required to maintain (i) an amount equal to the Reserve Fund Requirement on deposit in the Debt Service Reserve Fund or (ii) a Reserve Fund Facility in an amount equal to the Reserve Fund Requirement, as described under "SUMMARIES OF THE PRINCIPAL DOCUMENTS – The Resolution" herein. If amounts on deposit in the Debt Service Reserve Fund are less than the Reserve Fund Requirement, the Cabinet and the State Agency are required to pay additional rent, under the Lease until the amount in the Debt Service Reserve Fund equals the Reserve Fund Requirement. Series 2010 Bond proceeds in an amount equal to the Reserve Fund Requirement will be deposited in the Debt Service Reserve Fund.

The Commission previously issued its Taxable Agency Fund Revenue Bonds, Project No. 92 (the "Series 2008 Bonds") in an original aggregate principal amount of $4,975,000, of which $4,740,000 remain outstanding. The Series 2008 Bonds were issued to pay the costs of upgrades and improvements to Bluegrass Station and the State Agency Revenues were pledged to the payment of rent under a Lease Agreement dated as of October 1, 2008 (the "2008 Lease") among the Cabinet and the State Agency, as lessees, and the Commission, as lessor.

The Kentucky/Asset Liability Commission previously issued its Project Notes, 2005 Agency Fund Taxable First Series (the "Notes") in an original aggregate principal amount of $11,275,000, of which $9,640,000 remain outstanding. The Notes were issued to pay the costs of improvements at Bluegrass Station and the State Agency Revenues were pledged to the payment of rent under a Financing/Lease Agreement dated as of May 1, 2005 (the "2005 Lease") among the Cabinet and the State Agency, as lessees, and Kentucky/Asset Liability Commission, as lessor.

Parity Obligations may be incurred under the 2008 Lease, the 2005 Lease and the Lease if there is filed with the trustee for the Series 2008 Bonds and the Notes a certificate of an authorized officer of the State Agency stating that the Net Revenues of the State Agency for a period of twelve (12) consecutive months of the eighteen (18) months immediately prior to the issuance of such Parity Obligation (subject to adjustments as described in the next sentence) are at least equal to the Maximum Annual Debt Service for all Parity Obligations outstanding in the current and each future Fiscal Year including the Parity Obligations proposed to be incurred, but in the case of Parity Obligations to be incurred for refunding purposes, excluding the payments on the Parity Obligations to be refunded. The amount of Net Revenues may be adjusted by the officer to take into account and reflect, for the historical period being tested, the amount of additional State Agency Revenues to be realized by the State Agency in future Fiscal Years from (i) the additions and improvements to be financed by the Parity Obligations proposed to be incurred and (ii) increases in rates and charges, less the estimated additional operating and maintenance expense during such Fiscal Years.

"Net Revenues" means, under the 2008 Lease and the 2005 Lease, State Agency Revenues minus the State Agency's operating and maintenance expenses, including, but not limited to, salaries, supplies, utilities, mailing, labor, materials, office rent, maintenance, upkeep, furnishings, equipment, repair of facilities, insurance premiums, legal, accounting, management, consulting and banking services and expenses, the fees and expenses of any regulatory agency having jurisdiction of the State Agency and all other items normally considered operation and maintenance costs under generally accepted accounting principles, but excluding allowances for depreciation and fund transfers out.

The Lease constitutes a Parity Obligation under the 2008 Lease and the 2005 Lease.

THE BONDS ARE SPECIAL AND LIMITED OBLIGATIONS OF THE COMMISSION AND ARE PAYABLE SOLELY FROM THE REVENUES AND FUNDS SPECIFICALLY PLEDGED FOR THE PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, AND INTEREST ON THE BONDS.

The Commission had outstanding bonds in the aggregate principal amount of $3,833,730,000 as of July 1, 2010. Upon the issuance of the Series 2010 Bonds and the issuance of the Commission's Revenue and Revenue Refunding Bonds, Project 98 scheduled to be closed on July 13, 2010, the Commission will have a total of $3,865,315,000 aggregate principal amount of bonds outstanding.

ESTIMATED SOURCES AND USES OF FUNDS FOR THE BONDS

The following table sets forth the application of the proceeds of the Series 2010 Bonds.

Sources of Funds

Par Amount of Series 2010 Bonds	$3,430,000
Total Sources	$3,430,000

Uses of Funds

Deposit to Construction Fund	$3,035,000
Deposit to Debt Service Reserve Fund	323,080
Costs of Issuance[1]	71,920
Total Uses	$3,430,000

[1]Includes Underwriter's discount, legal fees, printing and miscellaneous costs

THE PROJECT

The Project consists of the construction of a hangar at Bluegrass Station in Lexington, Kentucky, for the benefit of the State Agency. It will be used for helicopter modification, a core mission of the major tenant organization. The structure will be between 27,000 and 28,000 square feet with a 42 foot eve height. The facility will have a full length crane, complete length sliding doors, fire suppression, heat and exterior ramp to the taxiway, and landing pad. The multi-purpose facility will allow flexible capability for change in missions across future years. The United States Government transferred ownership of the former Army Depot to the Commonwealth in 1995. The State Agency operates the facility for the Commonwealth. Bluegrass Station is a quasi-commercial, for-profit activity that currently has 40 tenants and 2,602 full time employees. The Cabinet (for the State Agency) leases over 2,900,000 square feet of space at the facility to the various tenants, including, primarily, the United States Government. These upgrades are required so that Bluegrass Station can continue to provide adequate services to the tenants. See "THE STATE AGENCY" herein for more information regarding the Bluegrass Station Division.

THE STATE PROPERTY AND BUILDINGS COMMISSION

General

The Commission is composed of the Governor (who is the Chairman of the Commission), the Lieutenant Governor, the Attorney General, the Secretary of the Finance and Administration Cabinet (who is the Executive Director of the Commission), the Secretary of the Cabinet for Economic Development, the State Budget Director and the State Controller. The Office of Financial Management ("OFM") in the Finance and Administration Cabinet serves as staff to the Commission, and the Executive Director of the OFM serves as Secretary to the Commission. The Commission is an independent agency of the Commonwealth, created by KRS 56.450, with power, subject to approval by and in cooperation with the Cabinet, to finance the acquisition of real estate and the construction and equipping of building projects and other public projects for any agency of the Commonwealth.

KRS 56.450(4) authorizes the Commission, on application of any state agency of the Commonwealth, to issue revenue and revenue refunding bonds in the Commission's name in accordance with the provisions of KRS Chapters 56 and 58, secured by and payable solely from all or any part of the revenues derived from the leasing of the project financed to such state agency. The Commission is authorized to execute lease agreements with those state agencies requesting the Commission to issue revenue bonds, which leases provide for the payment of lease rentals to the Commission in order to make principal and interest payments on the revenue bonds issued in the name of the Commission. The Cabinet has applied to the Commission to issue the Series 2010 Bonds secured by revenues from the Lease.

Future Financings

The 2005 General Assembly enacted a State Budget for the biennium ending June 30, 2006, which authorized $2.056 billion of bond funded capital projects. The General Fund authorization was $1,204 million; the Road Fund authorization was $450 million; Agency Funds were authorized at $251.7 million; and $150 million was authorized to be supported by the Federal Highway Trust Funds. The Road Fund and Federal Highway Trust Fund authorizations have been issued. Bonds have been issued to permanently finance the Agency Fund projects and a significant portion of the General Fund projects have been permanently funded.

The 2006 General Assembly adopted a State Budget for the biennium ending June 30, 2008, which authorized an additional $2.3 billion of capital projects to be funded with debt. The General Fund authorization is $1,392.9 million; the Agency Fund authorizations total $267.5 million; while the Road Fund and Federal Highway Trust Fund authorizations are $350 million and $290 million, respectively. Bonds have been issued to permanently finance the Federal Highway Trust Fund, Agency Restricted Fund and Road Fund authorizations as well as a significant portion of the General Fund authorization.

The 2007 second Extraordinary (Special) Session of the General Assembly adopted House Bill 1 authorizing $100 million of General Fund supported debt for an energy projects economic development bond pool.

The 2008 General Assembly adopted a State Budget for the biennium ending June 30, 2010, which authorized debt financing for projects totaling $1.659 billion to support various capital initiatives of the Commonwealth. Of the total authorization, $650.3 million is General Fund supported, $643.2 million is Agency Restricted Fund supported, $135 million is Road Fund supported (of which $51 million has now been de-authorized) and $231 million is Federal Highway Trust Fund supported through Grant Anticipation Revenue Vehicle Bonds designated for the Louisville-Southern Indiana Ohio River Bridges Project. This authorization is in addition to the authority to issue refunding bonds to refund outstanding issues. The budget also included $50 million of debt restructuring for fiscal relief in each of Fiscal Years 2009 and 2010. A portion of the General Fund, Road Fund, Federal Fund and Agency Fund projects has been permanently funded, and the Fiscal Year 2009 and Fiscal Year 2010 debt restructurings have been completed.

The 2009 General Assembly adopted House Bill 536 authorizing $400 million of Road Fund supported debt for a variety of road projects , of which $200 million will be permanently funded by the Turnpike Authority of Kentucky Economic Development Road Revenue and Revenue Refunding Bonds (Revitalization Projects) 2010, Series A and B Bonds, which closed on June 25, 2010.

The 2010 Extraordinary (Special) Session of the General Assembly delivered House Bill 1 (Executive Branch Budget other than Transportation Cabinet) to the Governor on May 28, 2010 and House Bill 3 (Kentucky Transportation Cabinet Budget) to the Governor on May 29, 2010, establishing an Executive Branch Budget for the biennium ending June 30, 2012. Governor Beshear took final action on the bills on June 4, 2010. Together, the bills authorize bond financing for projects totaling $1.980.2 billion to support various capital initiatives of the Commonwealth. Of the total authorization, $507.4 million is General Fund supported, $515.3 million is Agency Restricted Fund supported, $522.5 million is supported by Road Fund (supported) appropriations and $435 million is Federal Highway Trust Fund supported through Grant Anticipation Revenue Vehicle Bonds designated for the Lake Barkley and Kentucky Lake Bridges Project and the Louisville-Southern Indiana Ohio River Bridges Project. The Executive Branch Budget also calls for approximately $503 million of budgetary savings during the biennium to be achieved through a combination of contract reductions, non-merit personnel cost reductions, debt restructuring, and other efficiency measures.

The Kentucky General Assembly may authorize debt financing to support various capital initiatives of the Commonwealth in future sessions. Bonds may also be issued to refund outstanding Commission or ALCo bonds or notes.

THE FINANCE AND ADMINISTRATION CABINET

General. The Cabinet, created and governed by the provisions of KRS 12.020 and KRS 42.011, is a statutory administrative organization of the Commonwealth headed by the Secretary of the Cabinet, who is appointed by the Governor. The Secretary of the Cabinet is the chief financial officer of the Commonwealth. Cabinet functions include, (1) coordination and supervision of the fiscal affairs and fiscal procedures of the Commonwealth; (2) accounting, fiscal reporting and auditing of Commonwealth accounts; (3) purchasing, storekeeping and control of property and stores; (4) construction, maintenance and operation of public buildings, except those provided for the exclusive use of certain agencies; (5) providing administrative services of a financial nature to other agencies of state government; (6) investment and management of all Commonwealth funds other than pension funds; and (7) oversight of the issuance and management of all debt incurred in the name of the Commonwealth or any agency thereof.

Department of Facilities and Support Services. The Department of Facilities and Support Services is responsible for the Commonwealth's capital construction program; real property acquisition, disposition and leasing services; the daily operation and maintenance of state-owned office properties and surplus property services.

Department of Revenue. The Department of Revenue is responsible for the administration and enforcement of all state revenue laws and for the assessment and collection of state taxes. The Department of Revenue bills and collects the tax revenue necessary to support the state services provided by the Commonwealth.

THE STATE AGENCY

General

The Kentucky Department of Military Affairs (the "State Agency" or "DMA") is a unique and diverse organization within state government, having both a state government organizational component and a federal government component under the Office of the Adjutant General for Kentucky.

The strategic mission of DMA is: "To provide highly trained, appropriately resourced and properly equipped professionals and unique services required to successfully meet state and federal missions worldwide". This is the department's core purpose and the functional role it plays within the public health and safety arena of the state government environment. The primary goals of DMA are readiness to accomplish militarily both the state and federal missions of the Kentucky Army and Air National Guard and to perform important response functions before, during and after a disaster or emergency.

The state government component is organized under Kentucky Revised Statute (KRS) Chapter 36 through Chapter 39F. DMA has a wide array of complex missions that encompass support of the Governor and the Commonwealth, per Section 75 of the Kentucky Constitution, in state domestic affairs as well as supporting national defense planning and operations for the Kentucky Army and Air National Guard per U.S. Code, Title 32 or Title 10 when activated for war-time duty. The department executes these requirements through a multi-component workforce made up of 204 full-time state employees, 396 contractual state employees, and a federal full-time workforce comprised of 716 military technicians, 599 Title 32 Active-duty Guard Reserve military personnel, as well as approximately 8,000 traditional Army and Air National Guard members that typically serve one weekend each month and two weeks each year unless called into active military service of the state by the Governor or federal command authority. This total workforce is housed in 348 state-owned buildings and on 20,000 acres of field training sites managed by the department.

DMA has both a state budget and a federal military budget totaling over $356 million dollars. DMA's state operating budget averages around $76 million dollars in expenditures annually and consists of a mix of approximately 21% General Fund appropriations, 51% Federal Fund grant funds, and 28% Restricted Funds. The Federal grant funds are "ear-marked" federal funds provided to directly support catalog of federal domestic assistance operational programs and can only be used to support the required federal grant program activities. It can not be used to support 'infrastructure maintenance' of state-owned facilities or other 'state' related operational costs. The vast majority of all Restricted Funds are generated and used in the operation of the two not-for-profit divisional elements consisting of Bluegrass Station and the Logistics Operations Division's Central Clothing Distribution Facility which normally receive no General or Federal fund appropriations. The department's General Fund appropriations support the state full-time personnel cost and current services operating costs for all the remaining divisions.

DMA is attached to the Office of the Governor for operations and consists of The Office of the Adjutant General for Kentucky and eight state divisional elements and two federal organizational elements which oversee fourteen state and federal divisions organized as follows:

State Organizations:

(1) Office of Management and Administration, containing the:
  - (a) Division of Administrative Services;
  - (b) Division of Facilities;
  - (c) Bluegrass Station Division;
  - (d) Division of Air Transport; and
  - (e) Logistics Operations Division

(2) Division of Emergency Management;
(3) Kentucky Guard Youth Challenge Division; and
(4) Kentucky Civil Air Patrol.

Federal Organizations:

(1) Office of the Chief of Staff for Federal Army Guard;
(2) Office of the Chief of Staff for Air Guard.

Additionally, KRS 36.255 administratively attaches the Kentucky Community Crisis Response Board to DMA.

A table showing DMA's historic revenues, expenditures and net funds for Fiscal Years 2006 through 2009 and projected revenues, expenditures and net funds for Fiscal Years 2010 through 2012 are shown below.

DMA Operating Revenues and Expenditures	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Revenues							
General Fund	$20,291,624	$15,726,712	$14,280,801	$28,832,047	$ 42,892,100	$ 9,825,900	$ 9,182,800
Federal Fund	43,298,646	27,851,145	33,650,784	68,952,870	325,945,500	42,182,800	42,182,800
Restricted Fund	26,291,767	35,957,604	39,365,108	38,201,641	40,401,200	42,600,700	44,800,200
Total	$89,882,037	$79,535,461	$87,296,693	$135,986,558	$409,238,800	$94,609,400	$96,165,800
Expenditures							
General Fund	$20,291,624	$15,726,712	$14,280,801	$28,832,047	$ 42,892,100	$ 9,825,900	$ 9,182,800
Federal Fund	41,961,399	30,438,333	33,700,492	70,715,567	324,182,800	42,182,800	42,182,800
Restricted Fund	22,432,399	28,005,221	29,461,336	34,494,826	36,518,300	38,541,900	40,565,500
Total	$84,685,422	$74,170,266	$77,442,629	$134,042,440	$403,593,200	$90,550,600	$91,931,100
Net Agency Revenues	$5,196,615	$5,365,195	$9,854,064	$1,944,118	$5,645,600	$4,058,800	$4,234,700
Restricted Fund Retained Earnings	$3,859,368	$7,952,383	$9,903,772	$3,706,815	$3,882,900	$4,058,800	$4,234,700

Bluegrass Station Division

DMA conducts operations that directly and indirectly support Kentucky's public policy initiatives such as promoting economic development. The operation of the Bluegrass Station Division is a focal point for DMA and tenant activities that directly contribute to economic development in central Kentucky.

The Bluegrass Station Division of DMA is located at a former Army Depot, which is situated in Fayette County, Kentucky. The 780-acre installation includes over 2.9 million square feet of rentable space in 112 buildings, 17 miles of paved roads, 25 acres of asphalt/concrete parking lots, its own water and electrical systems, a wastewater treatment plant and rail lines.

The United States Congress voted in 1989 to close the Army Depot, as part of the federal Base Re-Alignment and Closure Act (BRAC). In 2007, the United States government completed deeding all real property for the former Army Depot to the Commonwealth.

The mission of the Bluegrass Station Division is to maintain an existing job base and bring new employment opportunities to Kentucky and the Lexington/Fayette County area through the leasing of space to private industry and governmental agencies. When Congress enacted the federal Base Re-Alignment and Closure Act in 1989, there were 1,200 persons working at the Army Depot. Today there are in excess of 2,602 persons employed at the facilities now operated by the Division. The Division itself directly employs 35 persons.

The Division is charged with establishing and maintaining extensive coordination and cooperation at all levels of government, civic and professional organizations as well as local businesses. It is estimated that this facility alone provides over $201 million annually in economic benefit through its business and tenant activities and operations. Success for Bluegrass Station is contingent upon leasing facilities to a variety of long-term tenants that bring jobs and economic growth to the area. Tenants include state agencies, federal agencies and contractors, commercial and private operations, as well as some residential tenants. Bluegrass Station has 40 tenants occupying over 2,900,000 square feet of leased space, which represents a 100% occupancy rate for all currently available rental space. Bluegrass Station tenants surge space requirements have also leased over 1.4 million square feet of space to surrounding companies in the Bluegrass area for the past two years.

The Series 2010 Bonds will fund the construction and equipping of a new hangar. The economic impact of the Project is significant. Department of Defense agencies create and sustain civilian jobs at Bluegrass Station, mainly in the electrical and mechanical fields. More than 600 jobs were added in 2009. Bluegrass Station previously supported the Department of Defense's agency expansion for the helicopters by erecting two hangars at Bluegrass Station.

The Project will enable Bluegrass Station to provide an economic impact to the Commonwealth, including 100 new jobs in the next two years. Bluegrass Station will set the conditions for additional defense industry growth in central Kentucky and support national security around the world.

A table showing Bluegrass Station Division's historic revenues, expenditures, net funds and capital project transfer for Fiscal Years 2006 through 2009 and projected revenues, expenditures, net funds and capital project transfers for Fiscal Years 2010 through 2012 is shown below:

BGS Operating Revenues and Expenditures	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Restricted Funds Gross Revenues	$6,566,293	$7,358,006	$8,664,466	$8,980,116	$9,471,200	$9,962,300	$10,453,400
Restricted Fund Operating Expenditures (less capital project transfers)[1]	(5,204,305)	(4,928,301)	(5,659,893)	(5,559,814)	(5,769,600)	(5,979,400)	(6,189,200)
Net Capital Project Transfers In/Out	(883,373)	(287,098)	(17,698)	(1,563,882)	(2,000,000)	(2,000,000)	(2,000,000)
NET REVENUES	$478,615	$2,142,607	$2,986,875	$1,856,420	$1,701,600	$1,982,900	$2,264,200
Debt Service Transfers Out	0	(579,744)	(888,947)	(1,238,821)	(1,447,408)	(1,742,737)	(1,765,367)
Restricted Fund Retained Earnings	$478,615	$1,562,862	$2,097,928	$617,599	$254,192	$240,163	$498,833

[1]Contains debt service payments to be made on a subordinate Kentucky Infrastructure Loan beginning in FY 2011

Further information regarding DMA and Bluegrass Station can be found at http://dma.ky.gov.

Agency Fund Appropriations

The budget of the Commonwealth is required to include all fund sources, which include General Funds, Road Funds, Federal Funds, Agency Funds and Tobacco Funds. The State Agency is required to develop and submit a balanced budget for consideration by the General Assembly during its regular session, which begins in January of each even-numbered year. Agency Funds of the State Agency are described in its financial statements which are included in *The Kentucky Comprehensive Annual Financial Report*. See "THE COMMONWEALTH - Certain Financial Information Incorporated by Reference; Availability" herein.

The State Agency has agreed to include an amount for Rental Payments in each budget request. Rental Payments related to the Series 2010 Bonds may only be made from Agency Funds available to the State Agency, including the State Agency Revenues.

The Kentucky General Assembly has approved funding, through the passage of House Bill 302 of the Regular Session of the 2010 Kentucky General Assembly and subsequently House Bill 1 of the 2010 Extraordinary (Special) Session, for the State Agency having amounts projected to be sufficient to enable the State Agency to pay required Rental Payments through June 30, 2012. The required Rental Payments are sufficient to meet principal and interest requirements on the Series 2010 Bonds through June 30, 2012.

Under the provisions of the Constitution of the Commonwealth, the State Agency is prohibited from entering into financing obligations extending beyond the biennial budget. The proposed budget for the State Agency is submitted to the General Assembly of the Commonwealth every two years, and is subject to the discretion and approval of each successive regular or extraordinary session of the General Assembly of the Commonwealth. There can be no assurance (i) that the State Agency will include Rental Payments in future budgets submitted to the General Assembly, (ii) that the General Assembly will approve appropriations in amounts sufficient to enable the State Agency to make Rental Payments or (iii) that the Governor, in the performance of his or her obligation to balance the Commonwealth's annual budget, will not reduce or eliminate such appropriations. Notwithstanding the foregoing, the Lease will be automatically renewed unless written notice of the election by the State Agency to not so renew is given to the Commission by the last business day of April prior to the beginning of the next succeeding biennial renewal term.

Debt Service Requirements

The aggregate debt service obligation of the State Agency in future fiscal years (ending June 30) is shown below. The debt service obligation shown is the principal of and interest due on the Notes, the Series 2008 Bonds and the Series 2010 Bonds. The related Rental Payments will be reduced by earnings on amounts in the Debt Service Reserve Fund and rental payments under the 2005 Lease and the 2008 Lease will be reduced by earnings on amounts in the debt service reserve fund for the Notes and the Series 2008 Bonds, respectively.

Date	Existing Debt Service	Series 2010 Bonds Principal	Interest	Debt Service	Total Debt Service
2011	$1,444,553.50	$180,000.00	$118,183.92	$298,183.92	$1,742,737.42
2012	1,444,926.50	185,000.00	135,440.00	320,440.00	1,765,366.50
2013	1,443,829.00	190,000.00	132,295.00	322,295.00	1,766,124.00
2014	1,445,580.00	190,000.00	128,305.00	318,305.00	1,763,885.00
2015	1,444,618.50	200,000.00	123,080.00	323,080.00	1,767,698.50
2016	1,441,497.00	205,000.00	116,780.00	321,780.00	1,763,277.00
2017	1,444,495.50	210,000.00	109,502.50	319,502.50	1,763,998.00
2018	1,444,888.50	220,000.00	101,312.50	321,312.50	1,766,201.00
2019	1,442,676.00	230,000.00	92,292.50	322,292.50	1,764,968.50
2020	1,445,558.00	240,000.00	82,172.50	322,172.50	1,767,730.50
2021	1,445,019.00	250,000.00	71,012.50	321,012.50	1,766,031.50
2022	1,449,826.50	260,000.00	58,887.50	318,887.50	1,768,714.00
2023	1,445,479.50	275,000.00	46,017.50	321,017.50	1,766,497.00
2024	1,447,390.50	290,000.00	31,992.50	321,992.50	1,769,383.00
2025	1,444,734.50	305,000.00	16,622.50	321,622.50	1,766,357.00
2026	507,662.50	0.00	0.00	0.00	507,662.50
2027	509,662.50	0.00	0.00	0.00	509,662.50
2028	508,775.00	0.00	0.00	0.00	508,775.00
Total	$23,201,172.50	$3,430,000.00	$1,363,896.42	$4,793,896.42	$27,995,068.92

THE COMMONWEALTH

The Commonwealth of Kentucky, nicknamed the Bluegrass State, was the first state west of the Alleghenies to be settled by pioneers. Kentucky is bounded by the Ohio River to the north and the Mississippi River to the west, and is bordered by the States of Illinois, Indiana, Ohio, West Virginia, Tennessee, Missouri and the Commonwealth of Virginia.

The Kentucky economy, once dominated by coal, horses, bourbon and tobacco has become a diversified, modern, international economy -- illustrated by the fact that Kentucky's manufacturing employment concentration as a percentage of non-farm employment is now higher than the national average, and recessionary employment declines in these sectors were more muted in Kentucky than the national equivalent. The Commonwealth's parks, horse breeding and racing industry, symbolized by the Kentucky Derby, play an important role in expanding the tourism industry in the Commonwealth.

The U.S. and Kentucky economies are slowly emerging from the 2007-2009 recession and much like the U.S. economy, state economists project that the export-led sectors are leading the recovery as once-robust inventories have been rapidly depleted. Supporting service sectors are likely to respond with a slightly lagged recovery cycle. While Kentucky's non-farm employment shed nearly 120,000 jobs since December 2007, the official start of the U.S. recession, the decline was near the median of states in terms of the employment effect of the recession.

Financial Information Regarding the Commonwealth

Information regarding debt issuing authorities of the Commonwealth is included in EXHIBIT A attached hereto.

The Commonwealth annually publishes *The Kentucky Comprehensive Annual Financial Report* with respect to the Fiscal Year of the Commonwealth most recently ended. The *Kentucky Comprehensive Annual Financial Report* includes certain financial statements of the Commonwealth as well as general financial information pertaining to the Accounting System and Budgetary Controls, Debt Administration, Cash Management, Risk Management, General Fund Budgetary Basis and Governmental Funds GAAP Basis. In addition, the Notes to Financial Statements as set forth in *The Kentucky Comprehensive Annual Financial Report* contain information regarding the basis of preparation of the Commonwealth's financial statements, Funds and Pension Plans. The "Statistical Section" of *The Kentucky Comprehensive Annual Financial Report* includes information on Commonwealth revenue sources, Commonwealth expenditures by function, taxes and tax sources, taxable property, assessed and estimated values, property tax, levies and collections, demographic statistics (population, per capita income and unemployment rate), construction and bank deposits, sources of personal income and largest Commonwealth manufacturers.

Certain Financial Information Incorporated by Reference

The Kentucky Comprehensive Annual Financial Report for Fiscal Year 2009 is incorporated herein by reference. The Commonwealth has filed *The Kentucky Comprehensive Annual Financial Report* for Fiscal Year 2009 with the following Nationally Recognized Municipal Securities Information Repository ("NRMSIR") in accordance with Rule 15c2-12 under the Securities Exchange Act of 1934, as amended ("Rule 15c2-12"):

Municipal Securities Rulemaking Board
Electronic Municipal Market Access System ("EMMA")
Internet: http://emma.msrb.org

A copy of *The Kentucky Comprehensive Annual Financial Report* for Fiscal Year 2009 may be obtained from EMMA or from the Office of Financial Management, 702 Capitol Avenue, Suite 76, Frankfort, Kentucky 40601, (502) 564-2924. Additionally, *The Kentucky Comprehensive Annual Financial Report* for Fiscal Year 2009 and certain other fiscal years may be found on the Internet at:

http://finance.ky.gov/ourcabinet/caboff/OOC/ofm/debt/cafr.htm

Only information contained on the Internet web page identified above is incorporated herein and no additional information that may be reached from such page by linking to any other page should be considered to be incorporated herein.

The Commission will enter into a Continuing Disclosure Agreement (as hereinafter defined) in order to enable the purchaser of the Series 2010 Bonds to comply with the provisions of Rule

15c2-12. See "CONTINUING DISCLOSURE AGREEMENT" herein. In addition, ongoing financial disclosure regarding the Commonwealth will be available through the filing by the Commonwealth of two documents entitled *The Kentucky Comprehensive Annual Financial Report* and *Supplementary Information to the Kentucky Comprehensive Annual Financial Report* (or successor reports) with EMMA as required under Rule 15c2-12.

Budgetary Process in the Commonwealth

The General Assembly is required by the Kentucky Constitution to adopt measures providing for the state's revenues and appropriations for each fiscal year. The Governor is required by law to submit a biennial State Budget (the "State Budget") to the General Assembly during the legislative session held in each even numbered year. State Budgets have generally been adopted by the General Assembly during those legislative sessions, which end in mid-April, to be effective upon the Governor's signature for appropriations commencing for a two-year period beginning the following July 1.

In the absence of a legislatively enacted budget, the Supreme Court has ruled that the Governor has no authority to spend money from the state treasury except where there is a statutory, constitutional or federal mandate and the Commonwealth may be prevented from expending funds for certain state governmental functions, including the ability to pay principal of and interest on lease appropriation obligations when due. The Bonds are lease appropriation obligations.

Fiscal Year 2008

The Commonwealth's combined net assets (governmental and business-type activities) totaled $16.3 billion at the end of 2008, as compared to $17.4 billion at the end of the previous year.

The largest portion of the Commonwealth's net assets, $20.2 billion, is invested in capital assets (*e.g.* land, infrastructures, buildings and improvements and machinery and equipment), and minus any related debt, which is still outstanding and used to acquire those assets. The Commonwealth uses these capital assets to provide services to its citizens; therefore, these assets are not available for future spending.

The second largest portion of the Commonwealth's net assets, totaling $1.45 billion, is restricted and represents resources that are subject to either external restrictions or legislative restrictions on how they may be used. The remaining balance is unrestricted net assets. The unrestricted net assets, if they have a positive value, could be used at the Commonwealth's discretion. However, the unrestricted balance is a negative $(5.4) billion; therefore funds are not available for discretionary purposes. A contributing factor to the negative balance is that liabilities are recognized on the government-wide statement of net assets when the obligation is incurred. Accordingly, the Commonwealth recognizes long-term liabilities (such as general bonded debt, compensated absences, unfunded employer pension cost, and contingent liabilities) on the statement of net assets.

The Commonwealth received program revenues of $10 billion and general revenues (including transfers) of $10.4 billion for total revenues of $20.4 billion during Fiscal Year 2008. Expenses for the Commonwealth during Fiscal Year 2008 were $21.7 billion, which resulted in a total decrease of the Commonwealth's net assets in the amount of $1.3 billion, net of contributions, transfers and special items.

The slowing economy, during Fiscal Year 2008, caused revenues to decline resulting in the decrease in net assets of governmental activities by $1.29 billion or 7.4 percent. Approximately 56 percent of the governmental activities' total revenue came from taxes, while 36 percent resulted from grants and contributions (including federal aid). Overall, program revenues were insufficient to cover program expenses for governmental activities. Therefore, the net program expenses of these governmental activities were supported by general revenues, mainly taxes.

As of the end of Fiscal Year 2008, the Commonwealth's governmental funds reported combined ending fund balances of $2.44 billion, a decrease of $434 million in comparison with the prior year. $1.21 billion of the fund balances are reserved for legal obligations and are not available to fund current operations. The amount available to fund current expenditures is $1.23 billion.

The General Fund is the primary operating fund of the Commonwealth. The fund balance at the end of Fiscal Year 2008 was $288 million. The balance reported reflects a decrease of $525 million from the previously reported amount, which represents a decline of 65%. The major factor for the decline is attributable to the slow national and state economy which has reduced tax revenues.

The fund balance is segregated into reserved and unreserved amounts. The reservations of the fund balance restrict those amounts for specific purposes such as: encumbrances, inventory, and capital outlay. The General Fund balance at the end of Fiscal Year 2008 had $290 million as a reserved fund balance and a negative $2.0 million unreserved. The unreserved represents the amount available for current expenditures.

The major special revenue funds experienced normal cyclical changes in revenues and expenditures. The significant change in fund balance recorded in the Agency Revenue Fund is attributable to the issuance of General Receipts Notes. These Notes are to be repaid by the revenues of the agency for which they were issued.

The Commonwealth of Kentucky's bonded debt increased by $174 million to $3.6 billion, a 5.00 percent increase during Fiscal Year 2008. The major factors in this increase were the issuance of bonds to replace notes which had been issued as an interim financing source and additional bonds to fund new projects. No general obligation bonds were authorized or outstanding at June 30, 2008.

Fiscal Year 2009

The Commonwealth's combined net assets (governmental and business-type activities) totaled $14.3 billion at the end of 2009, as compared to $16.1 billion at the end of the previous year.

The largest portion of the Commonwealth's net assets, $19.9 billion, is invested in capital assets (*e.g.* land, infrastructures, buildings and improvements and machinery and equipment), minus any related debt, which is still outstanding and used to acquire those assets. The Commonwealth uses these capital assets to provide services to its citizens; therefore, these assets are not available for future spending.

The second largest portion of the Commonwealth's net assets, totaling $1.1 billion, is restricted and represents resources that are subject to either external restrictions or legislative restrictions on how they may be used. The remaining balance is unrestricted net assets. The unrestricted net assets, if they have a positive value, could be used at the Commonwealth's discretion. However, the unrestricted balance is a negative $6.7 billion; therefore funds are not available for discretionary purposes. A contributing factor to the negative balance is that liabilities are recognized on the government-wide statement of net assets when the obligation is incurred. Accordingly, the Commonwealth recognizes long-term liabilities (such as general bonded debt, compensated absences, unfunded employer pension cost, and contingent liabilities) on the statement of net assets.

The Commonwealth received program revenues of $11.24 billion and general revenues (including transfers) of $9.86 billion for total revenues of $21.1 billion during Fiscal Year 2009. Expenses for the Commonwealth during Fiscal Year 2009 were $23 billion, which resulted in a total decrease of the Commonwealth's net assets in the amount of $1.9 billion, net of contributions, transfers and special items.

The slowing economy, during the fiscal year caused revenues to decline, resulting in the decrease in net assets of governmental activities by $1.3 billion or 8.12%. Approximately 53% of the governmental activities' total revenue came from taxes, while 40% resulted from grants and contributions (including federal aid). Overall, program revenues were insufficient to cover program expenses for governmental activities. Therefore, the net program expenses of these governmental activities were supported by general revenues, mainly taxes.

As of the end of Fiscal Year 2009, the Commonwealth's governmental funds reported combined ending fund balances of $1.99 billion, a decrease of $444 million in comparison with the prior year. $962.8 million of the fund balances are reserved for legal obligations and are not available to fund current operations. The amount available to fund current expenditures is $1.02 billion.

The General Fund is the primary operating fund of the Commonwealth. The fund balance at the end of Fiscal Year 2009 was $30.4 million. The balance reported reflects a decrease of $257.7 million from the previously reported amount, which represents a decline of 89.44%. The major factor for the decline is attributable to the slow national and state economy which has reduced individual and corporate income taxes.

The fund balance is segregated into reserved and unreserved amounts. The reservations of fund balance restrict those amounts for specific purposes such as: encumbrances, inventory, and capital outlay. The General Fund balance at the end of Fiscal Year 2009 had $80.13 million as a reserved fund balance and a negative $49.7 million unreserved. The unreserved represents the amount available for current expenditures.

The major special revenue funds experienced normal cyclical changes in revenues and expenditures, except for the Transportation Fund which was affected by the nation's current economic conditions. The Transportation Fund taxes motor fuel consumption and levies a use tax on motor vehicles transfers. Both of these activities experience a downturn resulting in a $69 million decrease in tax receipts.

The Commonwealth of Kentucky's bonded debt increased by $812.4 million to $4.4 billion, a 22.46% increase during Fiscal Year 2009. The major factors in this increase were the issuance of bonds to replace notes which had been issued as an interim financing source and additional bonds to fund new projects. No general obligation bonds were authorized or outstanding at June 30, 2009.

Fiscal Year 2010 (Unaudited)

In May 2009, the CFG revised the official Fiscal Year 2010 General Fund revenue estimate downward by $996.0 million and also revised the official estimate for Phase I Tobacco MSA payments downward by $9.3 million from the original CFG estimates upon which the budget was enacted. Governor Beshear subsequently called for a Special Session of the General Assembly in June 2009 to address the projected budget shortfall.

Based on the May 2009 revised CFG estimate along with the changes enacted in House Bill 3 and House Bill 4 by the General Assembly during the Special Session, the revised official General Fund revenue estimate for Fiscal Year 2010 became $8,295.9 million and the revised estimate for Phase I Tobacco MSA payments became $112.3 million.

The Governor signed General Fund Budget Reduction Order 10-01 on September 18, 2009 to implement the budget reduction plan enacted by the General Assembly and to balance the Commonwealth's Fiscal Year 2010 General Fund budget. The General Fund Budget Reduction Order called for appropriation reductions of $248.5 million, which included cuts to various state agency budgets as well as $113 million of debt restructuring. The General Fund Budget Reduction Order also called for the use of $787.5 million of ARRA funds from Medicaid and the State Fiscal Stabilization Fund. These actions along with certain authorized transfers from the Legislative branch and the Judicial branch and various other funds were used to meet the projected revenue shortfall in Fiscal Year 2010.

On December 21, 2009, the CFG revised the official Fiscal Year 2010 General Fund revenue estimate downward by an additional $99.9 million to $8,196 million. This revision was slightly better than expected based on the initial planning estimates the CFG released in October, 2009. The Governor signed General Fund Budget Reduction Order 10-02 on January 4, 2010 to close this additional budget gap through a combination of fund transfers, additional budget cuts, and use of the State Fiscal Stabilization Fund.

Fiscal Year 2010 General Fund actual revenues total $8,225.1 million through June 2010, a decrease of 2.4% over the same period in Fiscal Year 2009. General Fund receipts declined for the second straight fiscal year, and the state's tax collections hit their lowest point in five years. However, final fiscal year General Fund revenues were $27.2 million, or 0.3%, more than the official revised revenue estimate for Fiscal Year 2010.

General Fund revenues for June 2010 were $800 million, an increase of 4.6% compared to June 2009. During June 2010, sales and use tax revenues were up 2.8% when compared to June 2009 but were down 2.2% for the year , as the national recession cut into consumers' ability to make taxable purchases. June individual income tax receipts rose by 4.0%, but were down 4.9% for the year with weakness in withholding, declarations, and fiduciary components with only minimal increase in net returns. Corporation income tax receipts for June 2010 increased 49.5% compared to June 2009 and were down 11.2% for the year. Property taxes ended up $3 million or 0.6% for the year, slightly less than forecasted. Real property and public service property tax collections helped offset declines in motor vehicle and tangible property tax receipts. Cigarette tax receipts increased 4.4% in June 2010 compared to June 2009 due to increased tax rates and were up 48.9% for the year. Coal severance tax receipts rose by 16.0% in June 2010 compared to June 2009 and were down 7.1% for Fiscal Year 2010. The Kentucky Lottery Corporation dividend payment for June 2010 was up 20.0% from last June and was up 3.4% for Fiscal Year 2010.

Investment Policy

The Commonwealth's investments are governed by KRS 42.500 et seq. and KAR Title 200 Chapter 14. The State Investment Commission, comprised of the Governor, the Treasurer, Secretary of the Finance and Administration Cabinet and gubernatorial appointees of the Kentucky Banker's Association, is charged with the oversight of the Commonwealth's investment activities. The Commission is required to meet at least quarterly, and delegates day-to-day investment management to the Office of Financial Management.

At June 30, 2010, the Commonwealth's operating portfolio was approximately $3.44 billion in cash and securities. The composition of investments was as follows: U.S. Treasury securities (17%); securities issued by agencies and instrumentalities of the United States Government (25%); mortgage-backed securities and collateralized mortgage obligations (7%); repurchase agreements collateralized by the aforementioned (24%); municipal securities (5%); and corporate and asset-backed securities, including money market securities (22%). The portfolio had a current yield of 0.69% and an effective duration of 0.60 years.

The Commonwealth's investments are currently categorized into three investment pools: Short term, Intermediate term and Bond Proceeds Pools. The purpose of these pools is to provide economies of scale that enhance yield, ease administration and increase accountability and control. The Short term Pool consists primarily of General Fund and related accounts and provides liquidity to the remaining pools. The Intermediate term Pool represents Agency Fund investments, state held component unit funds and fiduciary fund accounts held for the benefit of others by the Commonwealth. The Bond Proceeds Pool is where bond proceeds for capital construction projects are deposited until expended for their intended purpose.

The Commonwealth engages in selective derivative transactions. These transactions are entered into only with an abundance of caution and for specific hedge applications to minimize yield volatility in the portfolio. The State Investment Commission expressly prohibits the use of margin or other leveraging techniques. The Commonwealth executes a variety of transactions which may be considered derivative transactions, which include: the securities lending program, over the counter treasury options, interest rate swaps, mortgage–backed securities, collateralized mortgage obligations and asset–backed securities.

The Commonwealth has used over the counter treasury options since the mid 1980s to hedge and add value to the portfolio of treasury securities. These transactions involve the purchase and sale of put and call options on a covered basis, holding either cash or securities sufficient to meet the obligation should it be exercised. The State Investment Commission limits the total option commitment to no more than 20% of the total portfolio of treasury and agency securities. Historically, actual commitments have been less than ten percent of the portfolio. The Commonwealth has not had any options positions outstanding since April 2004.

The Commonwealth has had a securities lending program since the mid 1980s. The Commonwealth is able to enter into either a principal relationship or an agent relationship. In a principal relationship the Commonwealth reverses its treasury and agency securities in exchange for 102% of "Eligible Collateral," marked to market daily. "Eligible Collateral" is defined as securities authorized for purchase pursuant to KRS 42.500. In an agent program the agent, Credit Suisse, lends the Commonwealth's treasuries and agencies, takes the cash received from the loan and invests it in Eligible Collateral authorized for purchase pursuant to KRS 42.500. The income generated by these transactions is split between the agent and the Commonwealth.

On June 20, 2003, the State Investment Commission adopted Resolution 03-03, which amended the Commonwealth's investment policy concerning asset-based interest rate swaps. The change modifies the exposure limits from a $200 million notional amount to a net market value approach, the absolute value of which cannot exceed $50 million for all counterparties. The Commonwealth engages in asset-based interest rate swaps to better manage its duration and to stabilize the volatility of interest income. The Commonwealth has not has any asset-based interest rate swaps outstanding since June 2006.

House Bill 5 of the First Extraordinary Session of 1997 was enacted on May 30, 1997. The Bill amended KRS 42.500 to authorize the purchase of additional investment securities with excess funds available for investment. The new classes of investment securities include: United States dollar denominated corporate securities, issued by foreign and domestic issuers, including sovereign and supranational governments, rated in one of the three highest categories by a nationally recognized rating agency, and asset–backed securities rated in the highest category by a nationally recognized rating agency. The Commonwealth currently holds several asset–backed securities that have been downgraded from the highest rating category.

KAR Title 200 Chapter 14 provides, among other things that: corporate securities, inclusive of Commercial Paper, Banker's Acceptances and Certificates of Deposit are limited to $25 million per issuer and a stated final maturity of five years or less. Money market securities rated A1-P1 or higher are limited to 20% of the investment pools. Asset-Backed Securities ("ABS") are limited to 20% of the investment pools. Mortgage–Backed Securities ("MBS") and Collateralized Mortgage Obligations ("CMO") are also limited to a maximum of 25% of the investment pools. ABS, MBS and CMO must have a weighted-average-life of four years or less at time of purchase.

State Retirement Systems

Following is information about the state's retirement system, including pension plans and other post employment benefits. Capitalized terms used under this heading and not otherwise defined shall have the respective meanings given by the CAFRs, as herein defined.

Pension Plans. Eligible state employees participate in one of two multi-employer defined benefit plans, the Kentucky Retirement Systems and the Kentucky Teacher's Retirement System ("KTRS"). The Kentucky Retirement Systems is comprised of four retirement plans, Employees Non-Hazardous and Employees Hazardous, County Employees and State Police. Each retirement plan is state supported, except for the County Employees, which has been excluded from the Kentucky Retirement Systems information provided herein. The Kentucky Retirement Systems and KTRS (collectively, the "Pension Plans") provide both pension and Other Post Employment Benefits ("OPEB") to state employees and teachers based upon their years of service and retirement dates. The Pension Plans are component units of the Commonwealth of Kentucky for financial reporting purposes and are included in *The Kentucky Comprehensive Annual Financial Report*. For a brief description of the Pension Plans and of the Pension Plans' assets and liabilities, see *The Kentucky Comprehensive Annual Financial Report* for Fiscal Year 2009, Note 8 beginning on page 80. Additional information regarding the Kentucky Retirement Systems and KTRS can be found in their respective web sites at http://www.kyret.com and http://www.ktrs.ky.gov, including their respective Comprehensive Annual Financial Reports (collectively, the "CAFRs") and the accompanying actuarial studies, described under Other Post Employment Benefits ("OPEB"). Only information contained on the Internet web page identified above is incorporated herein and no additional information that may be reached from such page by linking to any other page should be considered to be incorporated herein.

Pension Funding. Based upon the assumptions employed in the Pension Plans' June 30, 2009 actuarial valuation reports used in preparing the associated Pension Plans' 2009 CAFRs, the Kentucky Retirement Systems had a state supported pension Unfunded Actuarial Accrued Liability (the "UAAL") of $6,308 million, while KTRS had a UAAL of $8,514 million. The state supported portion of the Pension Plans for Fiscal Year ended June 30, 2009 had funding percentages of 47.1 percent for the Kentucky Retirement Systems and 63.6 percent for KTRS. The Kentucky Retirement Systems state supported Annual Required Contribution for Fiscal Year ended June 30, 2009 pension benefits was $326.2 million versus the Actual Contribution of $136.4 million. The KTRS state supported Annual Required Contribution for Fiscal Year ended June 30, 2009 was $600.3 million; $400.7million was contributed.

Other Post Employment Benefits ("OPEB"). The Governmental Accounting Standards Board has promulgated Statement 45 ("Accounting and Financial Reporting by Employers for

Post-employment Benefits other than Pensions"). The State was required to adopt the standards after the Fiscal Year ending June 30, 2008.

The State is obligated to provide healthcare benefits to certain retired state employees and teachers. The Pension Plans administer two multi-employer defined benefit healthcare plans (collectively, the "Health Plans") for which the state pays a portion of the cost of the benefits of the retired employees. As of January 1, 2006, the State commenced self-funding of healthcare benefits for state employees. The Kentucky Retirement Systems also adopted, on January 1, 2006, a self funding health care plan for Medicare Eligible Retirees. KTRS became self-insured for post retirement healthcare costs for Medicare Eligible Retirees on July 1, 1991. Beginning January 1, 1997, KTRS offered non-Medicare Eligible Employees insurance through the state health insurance program, which has since become self insured.

The Pension Plans have commissioned actuarial studies which have provided results for consideration, under certain actuarial funding methods and sets of assumptions. A five year experience study was completed for the period ending June 30, 2006 for the Kentucky Retirement Systems and the next scheduled experience study period will be prepared in January 2011. KTRS' last five-year experience study was for the period ending June 30, 2005, the next five year experience study will be for the period ending June 30, 2010. Pursuant to their respective actuarial studies, the OPEB UAAL as of June 30, 2009 has been estimated to not exceed $4,403 million for the Kentucky Retirement Systems and $6,231 million for KTRS. These estimates represent the amount of healthcare benefits under the respective Health Plans, payable for the ensuing 30-year period and allocated by the actuarial cost method, as of June 30, 2009. The actuarial estimates for the Kentucky Retirement Systems' OPEB liabilities substantially decreased from the $5,403 million previously reported in the Kentucky Retirement Systems' 2008 CAFR due to lower than projected utilization rates over the last three years as well as implementing improvements to long term health management and improvements to benefit coverage through the Employer Group Waiver Program (EGWP). The actuarial estimates for KTRS slightly decreased from $6,255 million.

The Kentucky Retirement Systems' state supported Annual Required Contribution for Fiscal Year ended June 30, 2009 healthcare benefits was $426.7 million versus the Actual Contribution of $111.4 million. The KTRS state supported Annual Required Contribution for Fiscal Year ended June 30, 2009 was $468.8 million; $183.5 million was contributed. Previously, the General Assembly directed transfers to the Medical Insurance Fund for Stabilization Funding in the amounts of $125.0 million in Fiscal Year 2010, $125.0 million in Fiscal Year 2009, $125.0 million in Fiscal Year 2008, $73.0 million in Fiscal Year 2007, $62.3 million in Fiscal Year 2006 and $29.1 million in Fiscal Year 2005. These amounts are to be repaid from the State General Fund over a 10-year period corresponding with each transfer. The state supported portion of the Health Plans for Fiscal Year ended June 30, 2009 had funding percentages of 17.9 percent for the Kentucky Retirement Systems and 4.8 percent for KTRS.

The Commonwealth's 2008-2010 biennial budget increased employer contribution rates by 37 percent for the Kentucky Retirement Systems' non-hazardous duty retirement system. The increase for the State Police Retirement System is 18 percent.

Changes to State Retirement Systems. During the 2008 Regular Session, Governor Steve Beshear presented the Kentucky Public Pension Protection and Modernization Act to address the long-term financial stability of the Commonwealth's pension systems. While there was significant discussion and debate between both the House and the Senate resulting in different versions of the pension legislation being considered, ultimately both sides of the General Assembly failed to reach an agreement.

On May 29, 2008, Governor Beshear issued an executive order creating the Kentucky Public Pension Working Group and urged both the House and Senate to work together toward an agreement for a special session. Governor Beshear's May 29, 2008 Executive Order created a working group composed of senior executive branch officials, pension fund directors, employee representatives and private sector investment experts. The working group conducted an operational and governance review of the state retirement systems and studied the issues in dispute during the 2008 Regular Session that had not been recommended by the prior administration's Blue Ribbon Commission, to determine their viability and cost. To accomplish these tasks, the working group was divided into six subcommittees, including: best practices in investments; future funding strategies; a County Employees Retirement System and Local Government Employees Retirement System committee that was tasked to study the transfer of classified school employees to a new retirement system and the potential for a new local government employees retirements system; a committee that considered defined contribution options; a group that evaluated healthcare costs and strategies; and a committee that evaluated and ensured best practices in securities litigation. The working group provided its final report to the Governor in November 2008 and offered to provide testimony to the Interim State Government Committee, allowing the General Assembly to address these issues in the 2009 regular legislative session and future legislative sessions.

In June 2008, Governor Beshear called a special session of the General Assembly after both the House and Senate reached an agreement on pension reform, which ultimately became House Bill 1. The final agreement accomplished several things, including: a schedule to improve state funding by reaching the full actuarially required contribution ("ARC") by 2025; proposed a new benefit tier for future hires that would require workers to stay longer and place more money into their own retirement over time in order to reach their full retirement benefit; established a floor for annual cost of living adjustments ("COLA") equal to 1.5% of the Consumer Price Index with the potential for future increases if the COLA is pre-funded; closed several loopholes; and created increased legislative oversight of the pension funds in future years.

As a result of the passage of House Bill 1, the growth in the state's unfunded liability is expected to be slowed. These results are expected to be augmented by proposed changes in the Commonwealth's investment strategies and allocations to bring the retirement systems closer to their peer group performance levels over time. By using the dual combination of the best practices and findings of the Kentucky Public Pension Working Group and by following the schedule of payments included in House Bill 1, the state expects to see reductions in the liability that have accrued over time.

On April 12, 2010, House Bill 146 was signed by the Governor, amending KRS 61.650, KRS 16.642, and KRS 78.790 to establish a five-member investment committee for the Kentucky

Retirement System, the State Police Retirement System, and the County Employees Retirement System, comprised of two gubernatorial appointees with investment experience and three trustees appointed by the board chair.

In addition, House Bill 540 was signed by the Governor on April 13, 2010, creating the Kentucky Teachers' Retirement System insurance trust fund to supplement the current medical insurance trust fund, specifically dedicated to health benefits. The purpose of this bill is to increase over a six-year period the active employee and employer contributions to the Kentucky Teachers' Retirement System for retiree health benefits and to authorize the Kentucky Teachers' Retirement System Board to require retirees not eligible for Medicare to pay the equivalent for the Medicare Part B program towards their cost of health coverage. Once the medical insurance fund achieves sufficient funding status, the Board may recommend to the General Assembly that the member contributions be decreased, suspended, or terminated.

Also, House Bill 545 was signed by the Governor on April 26, 2010, amending certain sections of KRS 161 regarding the administration of Kentucky Teachers' Retirement System including federal tax compliance relating to establishing a medical insurance trust fund under Section 115 of the Internal Revenue Code to supplement the current Section 401(h) medical insurance trust fund as well as other technical amendments. The legislation will not increase or decrease benefits or the participation in benefits or change actuarial liability of the Kentucky Teachers' Retirement System.

On April 26, 2010, Governor Beshear also signed House Bill 531, which amended certain sections of KRS Chapter 56 to modify the definition of Kentucky Asset/Liability Commission Funding Notes to include notes issued by ALCo for the purpose of financing or re-financing obligations owed under KRS 161.550(2) or 161.553(2) to KTRS. These changes will provide the ability for ALCo to issue Funding Notes in an amount not to exceed $875 million to finance and/or re-finance loans made from the KTRS Pension Fund to the KTRS Medical Insurance Fund for Stabilization Funding in previous Fiscal Years.

SUMMARIES OF THE PRINCIPAL DOCUMENTS

The following statements are brief summaries of certain provisions of the Resolution and the Lease. Such statements do not purport to be complete and reference is made to the Resolution and the Lease, copies of which are available for examination at the Office of Financial Management, 702 Capitol Avenue, Suite 76, Frankfort, Kentucky 40601.

The Resolution

Funds and Accounts. The following Funds and Accounts have been established under the Resolution. Deposits of the proceeds of the Bonds and Revenues will be made as described below.

1. <u>Bond Service Fund</u>. The Resolution creates a Bond Service Fund with respect to the Bonds (the "Bond Fund"), to be held and maintained by the Trustee. There will be deposited into the Bond Service Fund all or such portion of the Revenues as will be sufficient to pay when due the

principal of, premium, if any, and interest on all Bonds Outstanding under the Resolution at or before their maturity. Accrued interest on the Bonds, if any, will be deposited to the Bond Service Fund. The Resolution requires the Commission to deposit or cause to be deposited on or before any June 1 or December 1 and any date set for redemption of Bonds prior to maturity (each a "Payment Date") with the Trustee all amounts required for the payment of the principal of, premium, if any, and interest on the Bonds due on such Payment Date.

No further payments are required to be made to the Bond Fund when, and so long as, the aggregate amount therein is sufficient to retire all of the Bonds that are then Outstanding plus interest due and to become due and redemption premium, if any. In the event that the amount on deposit in the Bond Fund is insufficient to pay the principal of, premium, if any, and interest on the Bonds on any Payment Date, the Trustee shall transfer moneys from the Debt Service Reserve Fund in an amount sufficient to pay the principal of, premium, if any, and interest on the Bonds on such Payment Date.

2. Cost of Issuance Fund. The Resolution creates a Cost of Issuance Fund for the Bonds to be held and maintained by the Trustee. From the proceeds of the Bonds and other available moneys, if any, deposited by the Commission at the time of delivery of the Bonds, there will be deposited therein an amount sufficient to pay certain expenses in connection with the issuance of the Bonds. The proceeds of Additional Bonds may be deposited in the Cost of Issuance Fund to pay the costs of issuance of such Additional Bonds.

3. Construction Fund. The Resolution creates a Construction Fund, to be held by the Treasurer of the Commonwealth. Until disbursed as authorized by the Resolution, the Construction Fund shall constitute a trust fund for the benefit of the Series 2010 Bondholders. The Construction Fund will be used for the purposes of financing that portion of the Project consisting of the acquisition, construction or undertaking of new property in connection with buildings or real estate, including costs of materials, construction work, installation of utilities, services, installation of equipment, facilities and furnishings of a permanent nature for buildings, appurtenances thereto, plans, specifications, blueprints, architectural and engineering fees and other expenses authorized to be incurred under the terms of KRS Chapters 56 and 58. Any moneys remaining in the Construction Fund after the Project is completed in full will be transferred to the Trustee to be held, in trust, in the Bond Service Fund.

4. Debt Service Reserve Fund. The Resolution creates the Debt Service Reserve Fund to be maintained with the Trustee, into which there shall be paid and set aside the Reserve Fund Requirement on the date of issuance of the Series 2010 Bonds.

The Debt Service Reserve Fund will be maintained by the Trustee as a separate trust fund and separate account statements with respect thereto shall at all times be kept and maintained.

An initial deposit to the credit of the Debt Service Reserve Fund will be made in an amount which is equal to the Reserve Fund Requirement with respect to the Series 2010 Bonds. Moneys in the Debt Service Reserve Fund will at all times be maintained in an amount not less than the Reserve Fund Requirement. If on any date the amount on deposit in the Debt Service Reserve Fund is less than the Reserve Fund Requirement, the Trustee will promptly notify the Commission, the Cabinet and the State Agency in writing of such deficiency, and the Trustee will deposit in the Debt Service Reserve Fund any payments made by the Commission, the Cabinet or the State Agency to replenish the Debt Service Reserve Fund, pursuant to the Lease. The Commission shall cause the State Agency and the Cabinet to seek appropriations to remedy any deficiency in the Debt Service Reserve Fund, as provided in the Lease.

Moneys on deposit in the Debt Service Reserve Fund on any Payment Date in excess of the Reserve Fund Requirement will be transferred to the Bond Service Fund. Except for such excess amounts, moneys on deposit in the Debt Service Reserve Fund will be used to make up any deficiencies in the Bond Service Fund to pay the interest on and the principal of the Bonds (in the order listed). Upon any such transfer from the Debt Service Reserve Fund to the Bond Service Fund, the Trustee will promptly notify the Commission, the Cabinet and the State Agency of such transfer and the amount of such transfer. Investment Obligations in the Debt Service Reserve Fund will be valued by the Trustee on each Payment Date on the basis of the amortized cost of such Investment Obligations, exclusive of accrued interest thereon.

The procurement and deposit of a Reserve Fund Facility, defined below, shall be treated as a proper deposit in lieu of cash to the credit of the Debt Service Reserve Fund to the stated amount of such Reserve Fund Facility then in force and available to draw upon. In the event that such a Reserve Fund Facility is to be delivered to the Trustee to satisfy the Reserve Fund Requirement in whole or in part, an insurance agreement (which is authorized by the Resolution to be executed and delivered) may specify the manner in which draws shall be made upon the Reserve Fund Facility, and may specify subrogation rights of the Reserve Fund Facility Provider, defined below, and provisions regarding reimbursement to the Reserve Fund Facility Provider; provided, that the Reserve Fund Facility Provider shall receive no payment of the principal of or the interest on the Bonds it is deemed to own until all of the principal of, interest on and past due interest on the Bonds have been paid to the other owners of the Bonds (other than the Reserve Fund Facility Provider).

In the event that a Reserve Fund Facility is delivered to the Trustee in lieu of cash, a corresponding amount of money on deposit in the Debt Service Reserve Fund shall be transferred to a separate, segregated account in the Bond Service Fund. All moneys in any such separate, segregated account in the Bond Service Fund shall be invested in Investment Obligations (subject to any limit regarding investment yield that may apply under the Code) and used to pay the principal of and interest on the Bonds as the same becomes due or to redeem Bonds prior to maturity on the next optional redemption date permitted with respect to the Bonds; provided, that such moneys may be otherwise used or invested if the Commission delivers to the Trustee an opinion of nationally recognized bond counsel to the effect that such other use or investment does not adversely affect the tax status of the interest on any tax-exempt Additional Bonds for federal income tax purposes.

"Reserve Fund Facility" means a surety bond, insurance policy, guaranty, letter of credit or other credit facility issued to guarantee or assure timely payment of the principal of or interest on, or both, of some or all outstanding Bonds, subject only to notification that there are insufficient funds for such payment. The Reserve Fund Facility shall be in a stated amount which, when added to the funds deposited in the Debt Service Reserve Fund and the stated amounts of all other Reserve

Fund Facilities, will equal 100% of the Reserve Fund Requirement computed on a basis which includes all outstanding Bonds. The Reserve Fund Facility must be unconditional and irrevocable so long as any Bonds secured thereby are outstanding. This definition shall also include any related covenants or agreements contained in an agreement with the Reserve Fund Facility Provider. If more than one Reserve Fund Facility is held in the Debt Service Reserve Fund at any time, references shall be to the related Reserve Fund Facility.

"Reserve Fund Facility Provider" means an insurance company, bank, savings and loan association, savings bank, thrift institution, credit union, trust company, surety company or other institution, which is, at the time of the issuance of the Reserve Fund Facility, of sufficient credit quality to entitle debt backed by its Reserve Fund Facility to be rated in the two (2) highest rating categories by at least two (2) nationally recognized rating agencies.

Federal Tax Covenants of the Commission. The Commission has covenanted to do and perform all acts and things permitted by law and necessary or desirable in order to assure that the interest paid on any tax-exempt Bonds by the Commission shall be excludible from the gross income of the owners of the tax-exempt Bonds (the "Holders") for the purposes of federal income taxation and not permit the tax-exempt Bonds to be or become "arbitrage bonds" as defined in the Code.

Investment of Funds. Moneys in any Fund or Account established under the Resolution will be invested in obligations permitted by Kentucky law as specified in the Resolution.

Events of Default. The Resolution defines "Events of Default" as follows:

(a) Default in the due and punctual payment of the interest on any Bond, any Series 2008 Bonds or any Note;

(b) Default in the due and punctual payment of the principal of, or premium, if any, on any Bond, any Series 2008 Bonds or any Note at maturity or upon redemption prior to maturity; or

(c) Default in the performance or observance of any other of the covenants, agreements or conditions on the part of the Commission in the Resolution, the bond resolution related to the Series 2008 Bonds, the trust indenture related to the Notes, the Bonds, the Series 2008 Bonds or the Notes contained, and the continuation thereof for a period of thirty (30) days after written notice given by the Trustee to the Commission or by the owners of not less than 25% in aggregate principal amount of the Bonds, the Series 2008 Bonds or the Notes, as applicable, then Outstanding to the Commission or the Kentucky Asset/Liability Commission, as applicable, and the Trustee, the trustee for the Series 2008 Bonds or the trustee for the Notes, as applicable; provided, however, that if such event of default can, in the opinion of the applicable trustee, be corrected but not within such period, it shall not constitute an event of default hereunder if corrective action is instituted by the Commission within such period and diligently pursued until the event of default no longer exists.

Upon the happening and continuance of any event of default described in clause (a) or clause (b) above, unless the principal of all the Bonds has already become due and payable, either the Trustee (by notice in writing to the Commission) or the Holders of not less than 25% of the principal amount of Bonds outstanding (by notice in writing to the Commission and the Trustee) may declare the principal of all the Bonds then Outstanding and the interest accrued thereon to be due and payable immediately, and upon any such declaration the same will become and be immediately due and payable, anything in the Resolution or in any of the Bonds contained to the contrary notwithstanding. The right of the Trustee or of the Holders of not less than 25% of the principal amount of Bonds then Outstanding to make any such declaration as aforesaid, however, is subject to the condition that if, at any time after such declaration, all overdue installments of interest on such Bonds and the principal of all Bonds which will have matured by their terms, together with the reasonable and proper charges, expenses and liabilities of the Trustee, are either paid by or for the account of the Commission or provision satisfactory to the Trustee is made for such payment, then and in every such case any such default and its consequences will *ipso facto* be deemed to be annulled, but no such annulment will extend to or affect any subsequent default or impair or exhaust any right or power consequent thereon.

The Resolution provides that upon the happening and continuance of any event of default thereunder, the Trustee may proceed, and upon the written request of the Holders of not less than 25% in aggregate principal amount of Bonds then Outstanding must proceed, to protect and enforce its rights and the rights of the Holders under the pertinent Kentucky Revised Statutes and under the Resolution forthwith by such suits, actions, or by special proceedings in equity or at law, or by proceedings in the office of any board or officer having jurisdiction, whether for the specific performance of any covenant or agreement contained in the Resolution or in aid of the execution of any power granted therein or in the Kentucky Revised Statutes or for the enforcement of any legal or equitable rights or remedies as the Trustee, being advised by counsel, deems most effectual to protect and enforce such rights or to perform any of its duties under the Resolution.

In the enforcement of any right or remedy under the Resolution or under the law, the Trustee is entitled to sue for, enforce payment on, and receive any or all amounts then or during the continuance of any event of default becoming, and at any time remaining, due from the Commission, for principal, interest or otherwise under any of the provisions of the Resolution or of the Bonds, and unpaid, with interest on overdue payments at the rate or rates of interest borne by the Bonds then Outstanding, to the extent permitted by law together with any and all costs and expenses of collection and of all proceedings under the Resolution and under the Bonds, without prejudice to any other right or remedy of the Trustee or of the Holders, and to recover and enforce judgment or decree against the Commission, but solely as provided in the Resolution and in the Bonds, for any portion of such amounts remaining unpaid, with interest, costs, and expenses, and to collect (but solely from the moneys in the funds and accounts established by the Resolution other than the Rebate Fund) in any manner provided by law, the moneys adjudged or decreed to be payable.

Regardless of the happening of an event of default, the Trustee, if requested in writing to take any action under the Resolution or the Bonds by the Holders of not less than 25% of the principal amount of Bonds outstanding, has no duty to act until it is furnished with indemnification satisfactory to it. The Trustee may institute and maintain such suits and proceedings as it may be advised are necessary or expedient to prevent any impairment of the security under the Resolution or the Bonds and such suits and proceedings as the Trustee may be advised are necessary or expedient to preserve or protect its interest and the interest of the Holders of the Bonds, provided that such request will not be otherwise than in accordance with the provisions of law and of the Resolution and will not be unduly prejudicial to the interest of the Holders of the Bonds not making such request.

Individual Holder Action Restricted. No Holder of Bonds has any right to institute any suit, action, or proceeding in equity or at law for the enforcement of the Resolution or for the execution of any trust thereof or for the appointment of a receiver or the enforcement of any other right under the Kentucky Revised Statutes, unless such Holder has given to the Trustee written notice of the event of default or breach of trust or duty on account of which such suit, action, or proceeding is to be taken and unless the Holders of not less than 25% in aggregate principal amount of Bonds outstanding have made written request accompanied by indemnity and security satisfactory to the Trustee and have offered it reasonable opportunity either to proceed to exercise the powers granted by the Resolution or to institute such action, suit, or proceeding in its own name, and the Trustee thereafter fails or refuses to exercise the powers granted by the Resolution or to institute such action, suit or proceeding in its, his or their own name or names. It is understood and intended that no one or more Holders of Bonds have any right in any manner whatsoever to affect, disturb or prejudice the security of the Resolution by its, his or their action or to enforce any right thereunder except in the manner therein provided, and that all proceedings at law or in equity will be instituted and maintained in the manner therein provided and for the equal benefit of the Holders of all of such Bonds then outstanding. Nothing contained in the Resolution or in the Bonds affects or impairs the right of any Holder of any Bond to payment of the principal of or interest on such Bond at and after the maturity thereof or the obligation of the Commission to pay the principal of, premium, if any, and interest on the Bonds to the respective Holders thereof at the time and place, from the source, and in the manner therein provided and in the Bonds expressed.

Priority of Remedies. Notwithstanding anything in the Resolution to the contrary, the rights of the Trustee and the owners of the Series 2010 Bonds to exercise remedies (i) shall be on a parity with the rights of the trustee for the Series 2008 Bonds and the owners of the Series 2008 Bonds to exercise remedies with respect to the Series 2008 Bonds, in accordance with the parity of the pledges described under "SECURITY FOR THE BONDS" and (ii) are subject and subordinate to the rights of the trustee for the Notes and the owners of the Notes to exercise remedies with respect to the Notes.

Amendments to the Resolution. If it appears desirable and to the advantage of both the Commission and the Holders of the Bonds, the Commission will adopt resolutions supplemental to the Resolution, altering or amending the Resolution, but each such supplemental resolution will not become effective unless and until it has been approved as provided in the Resolution by the Holders of 66 2/3% of the principal amount of Bonds outstanding and unless and until the opinion of counsel required by the Resolution has been delivered. Notwithstanding the foregoing, no such modifications, alterations or amendments will be made which permit an extension of the time of payment at maturity of the principal of, premium, if any, or interest on any Bond, or a reduction in the amount of principal or premium, if any, or the rate of interest thereon without the written consent of the Holder thereof, or which would reduce the percentage of Holders of Bonds whose approval is required by the Resolution for adoption of any supplemental resolution as described above.

In addition to the foregoing, the Commission and the Trustee may, without regard to the provisions set forth above, make any amendment or change to the Resolution (i) to cure any formal defect or ambiguity, if in the opinion of the Trustee such amendment or change is not adverse to the interest of the Holders of the Bonds, (ii) to grant to or confer on the Trustee for the benefit of the Holders of the Bonds any additional rights, remedies, powers, authority or security which may lawfully be granted or conferred and which are not contrary to or inconsistent with the Resolution as theretofore in effect, (iii) to permit the Trustee to comply with any obligations imposed on it by law, (iv) to achieve compliance of the Resolution with any federal tax law, (v) to maintain or improve any rating on the Bonds, (vi) to provide for a Reserve Fund Facility, (vii) to issue Additional Bonds in accordance with the terms of the Resolution, or (viii) which in the opinion of nationally recognized bond counsel will not materially adversely affect the rights of Holders of the Bonds, and the Commission may adopt such supplemental resolution to accomplish the foregoing.

Change, Substitution or Other Modification of Project. Anything in the Resolution or the Lease notwithstanding, the Commission may, in its sole discretion, change, substitute or otherwise modify components of the Project, so long as all Bond proceeds are applied to facilities, payments or undertakings which are included in and subject to rental payments under the Lease such that rental payments thereunder will be sufficient to pay principal of, premium, if any, and interest on the Bonds; provided that any such change, substitution or modification shall not cause the Commission to be in violation of certain covenants of the Resolution.

The Trustee. The Resolution sets forth the terms and provisions regarding the responsibilities, compensation and removal of the Trustee. The Trustee is entitled to reasonable compensation from Revenues and to the extent the Commission fails to make such payment, the Trustee may make such payment from funds in its possession (other than the Rebate Fund) and shall be entitled to a preference therefor over any outstanding Bonds. The Trustee may be removed at any time at the written request of the Commission or a majority of Bondholders.

Discharge of the Resolution. If the Commission pays or causes to be paid, or there is otherwise paid, to the Holders of all Bonds the total principal and interest due or to become due thereon, including premium, if applicable, at the times and in the manner stipulated therein and in the Resolution then the pledge of Revenues under the Resolution, and all covenants, agreements and other obligations of the Commission to the Holders of the Bonds shall cease, terminate and become void and shall be discharged and satisfied.

Whenever there shall be held by the Trustee in the Bond Service Fund or an escrow fund established for such purpose, either (a) moneys in an amount which shall be sufficient, or (b) Defeasance Obligations (as defined below) the principal of and interest on which when due (without consideration of reinvestment income) will provide moneys which, together with other moneys, if any, then on deposit in the Bond Service Fund or such escrow fund, shall be sufficient, to pay when due the principal of, interest and redemption premium, if applicable, on the Bonds or any part thereof to and including the date upon which the Bonds or any of them will be redeemed or will mature, as the case may be, then and in any of said events all such Bonds shall be deemed to have been paid within the meaning and with the effect expressed in the defeasance provisions of the Resolution, and the Trustee will and is irrevocably instructed by the Resolution to give notice thereof to the Holders.

As used herein, "Defeasance Obligations" means:

(a) non-callable direct obligations of the United States of America, non-callable and non-prepayable direct federal agency obligations the timely payment of principal of and interest on which is fully and unconditionally guaranteed by the United States of America, non callable direct obligations of the United States of America which have been stripped by the United States Treasury itself or by any Federal Reserve Bank (not including "CATS," "TIGRS" and "TRS" unless the Commission obtains a confirmation that the Bonds defeased thereby shall be rated in the highest rating category by S&P and Moody's (each as hereinafter defined) with respect thereto) and the interest components of REFCORP bonds for which the underlying bond is non-callable (or non-callable before the due date of such interest component) for which separation of principal and interest is made by request to the Federal Reserve Bank of New York in book entry form, and shall exclude investments in mutual funds and unit investment trusts;

(b) non-callable obligations timely maturing and bearing interest (to the extent that the full faith and credit of the United States of America are pledged to the timely payment thereof);

(c) certificates rated "AAA" by Standard & Poor's Ratings Services, a division of The McGraw Hill Companies, Inc. ("S&P"), "Aaa" by Moody's Investors Service, Inc. ("Moody's") and "AAA" by Fitch Inc. ("Fitch") (if rated by Fitch) evidencing ownership of the right to the payment of the principal of and interest on obligations described in clause (b), provided that such obligations are held in the custody of a bank or trust company satisfactory to the Trustee including the Trustee or any of its affiliates in a segregated trust account in the trust department separate from the general assets of such custodian;

(d) bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state (i) which are not callable at the option of the obligor or otherwise prior to maturity or as to which irrevocable notice has been given by the obligor to call such bonds or obligations on the date specified in the notice, (ii) timely payment of which is fully secured by a fund consisting only of cash or obligations of the character described in clause (a), (b) or (c) which fund may be applied only to the payment when due of such bonds or other obligations and (iii) rated "AAA" by S&P, "Aaa" by Moody's and "AAA" by Fitch (if rated by Fitch); and

(e) non-callable senior debt obligations of U.S. government sponsored agencies that are not backed by the full faith and credit of the U.S. government, including, but not limited to, Federal Home Loan Mortgage Corp. debt obligations, Farm Credit System consolidated systemwide bonds and notes, Federal Home Loan Banks consolidated debt obligations, Federal National Mortgage Association debt obligations, Resolution Funding Corp. debt obligations and U.S. Agency for International Development guaranteed notes (which must mature at least four business days before the appropriate payment date); provided, that, in each case, the obligations are rated "AAA" by S&P "Aaa" by Moody's and "AAA" by Fitch (if rated by Fitch).

The Lease

The Commission, the Cabinet and the State Agency have entered into the Lease which provides for (i) financing of the Project by issuance of the Bonds by the Commission; and (ii) the leasing of the Project from the Commission to the Cabinet and the State Agency (collectively the "Lessee") to provide revenues for amortization of the Bonds.

Term, *Renewals and Rental Payments*. Under the Lease the Commission agrees to lease to the Lessee, all of the properties, facilities and appurtenances constituting the Project, for an initial term ending June 30, 2012, with the right and privilege by the Lessee (or the Cabinet or the State Agency) to continue to lease and have the Project for succeeding biennial periods if the Lessee (or the Cabinet or the State Agency) exercises its option to renew the Lease as granted in the Lease. Under the Lease the Lessee is required to make certain payments to the Commission ("Rent"). The Lessee shall pay or cause to be paid as Rent during such initial lease rental period ending on June 30, 2012, the Debt Servicing Obligation, as hereinafter defined, due on each Debt Servicing Date, as hereinafter defined, during the term of the Lease. The primary source of payment of Rent shall be from payments made by the State Agency.

"Debt Servicing Date" means the first days of June and December of each year during the period between December 1, 2010, and June 1, 2025, inclusive, or any date set for the redemption of Bonds.

"Debt Servicing Obligation" means the aggregate amounts required to be paid in respect of the Bonds, on any Debt Servicing Date, being (i) the scheduled maturity of the principal of any Bonds maturing on such Debt Servicing Date; (ii) the principal of and premium, if any, on any Bonds subject to redemption on such Debt Servicing Date; and (iii) the interest required to be paid on the Bonds which were outstanding immediately prior to such Debt Servicing Date. The Lessee shall be entitled to a credit against the Rent otherwise required to be paid on any Debt Servicing Date to the extent there are funds in the Bond Service Fund prior to the payment of Rent under the Lease which under the terms of the Resolution and applicable law can be used to meet the Debt Servicing Obligation. Amounts transferred from the Construction Fund, the Debt Service Reserve Fund (other than amounts transferred from the Debt Service Reserve Fund to the Bond Service Fund to remedy any deficiency in the Bond Service Fund) or the Cost of Issuance Fund to the Bond Service Fund shall be a credit against Rent due and payable by the Lessee. No Rent need be paid during any period when the amount in the Bond Service Fund is sufficient to pay the principal and interest next payable on the Bonds then Outstanding, plus the amount of other costs then due on the Bonds.

Under the Lease, the Commission grants unto the Lessee (or the Cabinet or the State Agency) an exclusive option to renew the Lease for successive ensuing periods of two (2) years coinciding with the fiscal biennium of the Commonwealth, commencing on July 1 in each even-numbered year and ends on June 30 of the next ensuing even-numbered year unless modified by statute (each a "Renewal Term"). The last Renewal Term ends June 30, 2026 (the final maturity date of the Series 2010 Bonds to be issued by Commission for the Project being June 1, 2025); and for each such Renewal Term, if renewed therefor, the Lessee is obligated to pay, and agrees that in the event of such renewal it will pay or cause to be paid, to the Commission, as Rent for such biennium each Debt Servicing Obligation which comes due on each Debt Servicing Date during the Renewal Term for such period, secured by amounts (i) paid by the State Agency from its revenues available for such purpose, and (ii) budgeted in the General Fund budget of the Commonwealth for such purpose, if any. In the event that either the Cabinet or the State Agency elects to renew the Lease for an ensuing Renewal Term, but not the other, then the renewing entity shall be considered to be the sole Lessee under the Lease; provided, however, that if the State Agency elects not to renew the Lease, then the Cabinet shall have the right under the Resolution to substitute another state agency of the Commonwealth as co-Lessee under the Lease or to enter into a sublease or another agreement with any such state agency.

Payments for the Rent becoming due during the term ending June 30, 2012, and for each Renewal Term, if the Lease shall be renewed for any such Renewal Term, shall be made or caused to be made by the State Agency to the Commission on or prior to each Debt Servicing Date during each such term, in such minimum amounts as will enable the Commission, solely from such source, to pay its Debt Servicing Obligation for the Project; provided, that the parties to the Lease acknowledge that the primary source of the payment of Rent and Additional Rent (hereinafter defined) shall be from payments made by the State Agency.

Each of the successive options to renew may be exercised for the succeeding Renewal Term at any time after the adjournment of the Session of the General Assembly of the Commonwealth at which appropriations shall have been made for the operation of the state government for each succeeding Renewal Term by notifying the Commission by a writing signed by the Secretary of the Cabinet and/or the Adjutant General of the State Agency, respectively, delivered to the Commission; provided, however, that such option shall in each instance be deemed automatically exercised, and the Lease automatically renewed for the succeeding Renewal Term, effective on the first day thereof, unless a written notice of the election of the Lessee not to renew, signed by the Secretary of the Cabinet and/or the Adjutant General of the State Agency, respectively, shall have been delivered to the Commission before the close of business on the last business day in May, immediately preceding the beginning of such succeeding renewal term.

If the Lessee (or the Cabinet or the State Agency) exercises its successive renewal option, according to the automatic renewal provisions described above, then upon the first day of the biennial Renewal Term for which such option is exercised, the Lessee (or the Cabinet or the State Agency) shall be firmly bound for the entire amount of the Rent, including the Additional Rent, becoming due and payable for such Renewal Term, payable from any funds of the Lessee (or the Cabinet or the State Agency), including, but not limited to, appropriations, contributions, gifts, matching funds, devises and bequests from any source, whether federal or state, and whether public or private, so long as the same are not conditioned upon any use of the Project in a manner inconsistent with law; provided, however, that nothing contained in the Lease may be construed as binding the Lessee (or the Cabinet or the State Agency) to pay rentals for more than one biennial Renewal Term at a time.

Additional Rent. The Lessee covenants and agrees to pay "Additional Rent" for the term of the Lease and for any Renewal Term during which Bonds are outstanding, as follows:

(a) To the Trustee, to restore any deficiency in the Debt Service Reserve Fund, as determined in accordance with the Resolution;

(b) To the Trustee, when due, all fees of the Trustee for services rendered, all fees and charges of any Paying Agent, Registrar, counsel, accountants, and others incurred in the performance on request of the Trustee of services for which the Trustee and such other persons are entitled to payment or reimbursement which are not paid as Rental Payments; and

(c) To the Commission, upon demand, all reasonable expenses incurred by it in relation to the Project which are not otherwise specifically identified and required to be paid by the Commission under the terms of the Lease.

Effect of Lessee's Election Not to Renew. If the Lessee (or the Cabinet or the State Agency) gives written notice to the Commission of the election of the Lessee (or the Cabinet or the State Agency) not to renew the Lease for any Renewal Term, prior to the automatic renewal described above, the Lessee (or the Cabinet or the State Agency) will not be obligated to pay rentals beyond the last day of the then current term, and the Lessee (or the Cabinet or the State Agency) will thereby forfeit all of its future options to renew, and must peacefully surrender to the Commission possession of the Project on or prior to the last day of the then current term; provided, however, an election on the part of the Lessee (or the Cabinet or the State Agency) not to renew for a future term shall not in any manner alter or diminish any obligation of the Lessee (or the Cabinet or the State Agency) under the Lease for the then current term, and shall not preclude subsequent reinstatement of the Lease for any future Renewal Term, if agreed to by the Commission upon the same terms and conditions as would have been applicable if the Lease had been renewed according to the provisions thereof, except that if such reinstatement is sought when one or more installments of Rent or Additional Rent for such Renewal Term are overdue and unpaid, it shall be a condition of such reinstatement that such overdue Rent or Additional Rent be tendered.

Appropriations. The State Agency covenants and agrees that on each and every occasion when appropriations bills are prepared for introduction in the various successive Sessions of the General Assembly of the Commonwealth, the State Agency will cause to be included in the appropriations proposed to be made for the State Agency, sufficient amounts in the aggregate (over and above all other requirements of the State Agency) to enable the State Agency to pay Rent under the Lease, and thereby provide to the Commission moneys sufficient for the payment of the Debt Servicing Obligation and the other payment obligations of the State Agency under the Lease.

The Cabinet covenants and agrees that, if (i) the State Agency fails to pay any amounts due under the Lease, or (ii) a deficiency exists in the amount on deposit in the Debt Service Reserve Fund, then the Cabinet will seek a General Fund appropriation in an amount equal to the Debt Servicing Obligation to pay such Debt Servicing Obligation sufficient for the payment of the debt service on the Bonds and to maintain the Reserve Fund Requirement in the Debt Service Reserve Fund as required by the Resolution. In its statutory role as the financial agency of the Commonwealth, the Cabinet covenants to apply appropriated funds to make such Rent payments to the extent such appropriations are made in each legislative and budgetary biennium of the Commonwealth.

Pledge of Revenues. There is pledged under the Lease, for the payment of the Debt Servicing Obligation and any Rent, payable in accordance with the terms and the provisions of the Lease, subject only to the provisions of the Lease or the Resolution permitting the application thereof for or to the purposes and on the terms and conditions set forth in the Lease or the Resolution, the Net Revenues.

Parity Obligations. The State Agency has reserved the right to incur obligations for borrowed money that are secured by a pledge of Revenues on a parity basis with the pledge of Revenues under the Lease, including, but not limited to, Additional Bonds ("Parity Obligations"). Except as described below for refunding obligations, before Parity Obligations may be incurred, there must be filed with the Trustee a certificate of an authorized officer of the State Agency stating that the Net Revenues of the State Agency for a period of twelve (12) consecutive months of the eighteen (18) months immediately prior to the issuance of such Parity Obligation (subject to adjustments as described in the next sentence) are at least equal to the Maximum Annual Debt Service for all Parity Obligations outstanding in the current and each future Fiscal Year including the Parity Obligations proposed to be incurred, but in the case of Parity Obligations to be incurred for refunding purposes, excluding the payments on the Parity Obligations to be refunded. The amount of Net Revenues may be adjusted by the authorized officer of the State Agency to take into account and reflect, for the historical period being tested, the amount of additional Revenues to be realized by the State Agency in future Fiscal Years from (i) the additions and improvements to be financed by the Parity Obligations proposed to be incurred and (ii) increases in rates and charges, less the estimated additional operating and maintenance expense during such Fiscal Years.

The obligations of the State Agency to pay Rent and Additional Rent under the Lease are undertaken as "parity obligations" on a parity with the obligations of the State Agency under the 2008 Lease and the 2005 Lease.

"Net Revenues" shall mean, as of any particular date, State Agency Revenues minus the State Agency's operating and maintenance expenses, including, but not limited to, salaries, supplies, utilities, mailing, labor, materials, office rent, maintenance, upkeep, furnishings, equipment, repair of facilities, insurance premiums, legal, accounting, management, consulting and banking services and expenses, the fees and expenses of any regulatory agency having jurisdiction of the State Agency and all other items normally considered operation and maintenance costs under generally accepted accounting principles, but shall exclude allowances for depreciation and fund transfers out.

Additional Bonds and other Parity Obligations for the refunding of Parity Obligations may be issued on a parity as to security with Parity Obligations in order to refund any Parity Obligations then outstanding so long as (i) Maximum Annual Debt Service is not increased as a result of issuing such refunding Parity Obligations and the State Agency is in compliance with all of the provisions as to payment of outstanding Parity Obligations (including all Notes) and (ii) no default exists under the Lease or any other agreement relating to Parity Obligations, and in the case of Additional Bonds, the requirements of the Resolution relating to the issuance of Additional Bonds are satisfied.

Events of Default. Each of the following events constitutes an "event of default":

(1) default in the due and punctual payment of any Rent; or

(2) default in the performance of any of the covenants, terms, and conditions of the Lease, and failure to remedy such default within thirty (30) days after written receipt thereof if the default relates to matters other than the payment of Rent (but the Lessee will not be deemed to be in default if the Lessee commences to remedy said defaults within said thirty (30) day period, and proceed to and do remedy said default with due diligence).

If an event of default occurs, the Commission, in addition to all other remedies given to the Commission at law or in equity, may by written notice to the Lessee terminate the Lease or, without terminating the Lease, take possession (actually or constructively) of the Project. In such event, the Commission may sublet the Project or any portion thereof, and in the event of a reletting may apply the rent therefrom first to the payment of the expenses of the Commission incurred by reason of the default by the Lessee, and the expense of reletting, including but not limited to any repairs, renovation or alteration of the Project, and then to the payment of Rent and all other sums due from the Lessee under the Lease; *provided,* that prior to any such subletting or reletting, the Commission shall deliver to the Trustee an opinion of nationally recognized bond counsel to the effect that such subletting or reletting does not cause the interest on the tax-exempt Bonds to be includible in gross income of the owners thereof for federal income tax purposes. No termination of the Lease will deprive the Commission of any of its remedies or actions against each Lessee.

Provisions of the Lease Benefit of the Owners of the Bonds. All of the provisions contained in the Lease, are made for the benefit of each of the owners of the Bonds. Each and all of the owners of the Bonds, and the Trustee on behalf of the owners of the Bonds, have the rights of third party beneficiaries to enforce all of the provisions of the Lease; subject, however, to the provisions of the Resolution with respect to enforcement of rights.

Security. The Lease secures (i) the payment of Rent, and (ii) the payment of the Bonds in the aggregate principal amount which may from time to time be outstanding under the Resolution, with interest thereon at the rates per annum borne by such Bonds.

The Lease is given subject to all of the terms, conditions and provisions of the Resolution. In the event that any conflict should exist or appear to exist between the provisions of the Lease and the Resolution, the provisions of the Resolution will prevail.

Amendment. The Lease may be amended or supplemented from time to time by a writing duly executed by the parties thereto with the written consent of the Trustee; subject, however, to the condition that any such amendment or supplement will be consistent with the terms and conditions of the Resolution and not diminish the Rent under the provisions of the Lease for so long as any Bonds are Outstanding.

RATINGS

Moody's Investors Service, Inc. ("Moody's"), Standard & Poor's Ratings Services, a Division of The McGraw-Hill Companies, Inc. ("S&P") and Fitch Ratings ("Fitch") have assigned the Series 2010 Bonds the ratings of "Aa3", "A+" and "A+," respectively.

The ratings of Moody's and Fitch reflect the global scale ratings of each such rating agency resulting from their recent recalibrations of ratings. The ratings of each respective rating agency only reflect the views of such rating agency.

An explanation of the significance of the ratings given by Moody's may be obtained from Moody's Investors Service, Inc. at 7 World Trade Center at 250 Greenwich Street, New York, New York 10007, (212) 583-0300; an explanation of the ratings given by S&P may be obtained from Standard & Poor's Ratings Services at 55 Water Street, New York, New York 10041, (212) 438-2124; and an explanation of the rating given by Fitch may be obtained from Fitch Ratings at One State Street Plaza, New York, New York 10004, (212) 908-0500. There is no assurance that ratings will continue for any given period of time or that ratings will not be revised downward or withdrawn entirely if, in the judgment of the rating agency, circumstances so warrant. Any such downward revision or withdrawal of the ratings may have an adverse effect on the market price of the Series 2010 Bonds.

APPROVAL OF LEGAL PROCEEDINGS

Legal matters incident to the authorization and issuance of the Series 2010 Bonds are subject to the approving legal opinion of Peck, Shaffer & Williams LLP, Covington, Kentucky, Bond Counsel, who has been retained by, and acts as Bond Counsel, to the Commission. The form of the approving legal opinion of Bond Counsel is attached hereto as EXHIBIT C. Certain legal matters will be passed upon for the Underwriter by their counsel, Rubin & Hays, Louisville, Kentucky. Certain legal matters will be passed upon for the Commission, the Cabinet and the State Agency by their respective counsel.

LITIGATION

There is no controversy or litigation of any nature now pending or threatened restraining or enjoining the issuance, sale, execution or delivery of the Series 2010 Bonds, or in any way contesting or affecting the validity of the Series 2010 Bonds or any proceedings of the Commission taken with respect to the issuance or sale thereof, or the pledge or application of any monies or security provided for the payment of the Series 2010 Bonds or due existence or powers of the Commission.

TAX MATTERS

General

In the opinion of Bond Counsel for the Series 2010 Bonds, interest on the Series 2010 Bonds is exempt from Kentucky income tax and the Series 2010 Bonds are exempt from ad valorem taxation by the Commonwealth of Kentucky and any of its political subdivisions. HOWEVER, INTEREST ON THE SERIES 2010 BONDS IS NOT EXCLUDIBLE FROM GROSS INCOME OF THE HOLDERS OF THE SERIES 2010 BONDS FOR FEDERAL INCOME TAX PURPOSES. OWNERS OF THE SERIES 2010 BONDS SHOULD CONSULT WITH THEIR OWN TAX ADVISORS AS TO THE FEDERAL, STATE, LOCAL AND FOREIGN TAX CONSEQUENCES OF THE ACQUISITION, OWNERSHIP AND DISPOSITION OF THE SERIES 2010 BONDS.

Original Issue Discount

The Series 2010 Bonds having a yield that is higher than the interest rate (as shown on the cover page hereof) are being offered and sold to the public at an original issue discount ("OID") from the amounts payable at maturity thereon (the "Discount Bonds"). OID is the excess of the stated redemption price of a bond at maturity (the face amount) over the "issue price" of such bond. The issue price is the initial offering price to the public (other than to bond houses, brokers or similar persons acting in the capacity of underwriters or wholesalers) at which a substantial amount of bonds of the same maturity are sold pursuant to that initial offering. For federal income tax purposes, OID on each bond will accrue over the term of the bond, and for the Discount Bonds, the amount of accretion will be based on a single rate of interest, compounded semiannually (the "yield to maturity"). The amount of OID that accrues during each semi-annual period will do so ratably over that period on a daily basis. With respect to an initial purchaser of a Discount Bond at its issue price, the portion of OID that accrues during the period that such purchaser owns the Discount Bond is added to such purchaser's tax basis for purposes of determining gain or loss at the maturity, redemption, sale or other disposition of that Discount Bond and thus, in practical effect, is treated as stated interest.

Original Issue Premium

Certain of the Series 2010 Bonds (the "Premium Bonds") may be offered and sold to the public at a price in excess of their stated redemption price (the principal amount) at maturity. If a U.S. owner purchases a Premium Bond, that owner will be considered to have purchased such a Premium Bond with "amortizable bond premium" equal in amount to such excess. The U.S. owner may elect, in accordance with the applicable provisions of Section 171 of the Code, to amortize that premium as an offset to the interest payments on the Premium Bond using a constant yield to maturity method over the remaining term of the Premium Bond (or, if required by applicable Treasury Regulations, to an earlier call date). Pursuant to Section 67(b)(11) of the Code, the amortization of that premium is not considered a miscellaneous itemized deduction. Any amortization of bond premium will reduce the basis of the Premium Bond pursuant to Section 1016(a)(5) of the Code.

Owners of Discount or Premium Bonds (or book entry interests in them) should consult their own tax advisers as to the determination for federal tax purposes of the amount of OID or amortizable bond premium properly accruable in any period with respect to the Discount or Premium Bonds and as to other federal tax consequences and the treatment of OID and amortizable bond premium for purposes of state or local taxes on (or based on) income.

Backup Withholding

General information reporting requirements will apply to payments of principal and interest made on a Series 2010 Bond and the proceeds of the sale of a Series 2010 Bond to non-corporate holders of the Series 2010 Bonds, and "backup withholding" at a rate of 28% will apply to such payments if the owner fails to provide an accurate taxpayer identification number in the manner required or fails to report all interest required to be shown on its federal income tax returns. A beneficial owner of a Series 2010 Bond that is a U.S. owner can obtain complete exemption from backup withholding by providing a properly completed IRS Form W-9 (Request for Taxpayer Identification Number and Certification).

Nonresident Owners

Under the Code, interest and OID on any Series 2010 Bond whose beneficial owner is a nonresident alien, foreign corporation or other non-United States person (Nonresident) are generally not subject to United States income tax or withholding tax (including backup withholding) if the Nonresident provides the payor of interest on the Series 2010 Bonds with an appropriate statement as to its status as a Nonresident. This statement can be made on IRS Form W-8BEN or a successor form. If, however, the Nonresident conducts a trade or business in the United States and the interest or OID on the Series 2010 Bonds held by the Nonresident is effectively connected with such trade or business, that interest or OID will be subject to United States income tax but will generally not be subject to United States withholding tax (including backup withholding).

Circular 230

THE FOREGOING DISCUSSION OF TAX MATTERS WAS NOT INTENDED OR WRITTEN BY BOND COUNSEL TO BE USED, AND IT CANNOT BE USED, FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON AN OWNER OF THE BONDS. THE FOREGOING DISCUSSION OF TAX MATTERS WAS WRITTEN TO SUPPORT THE PROMOTION OR MARKETING OF THE BONDS. EACH PROSPECTIVE OWNER OF THE BONDS SHOULD SEEK ADVICE BASED ON THE PROSPECTIVE OWNER'S PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

UNDERWRITING

The Series 2010 Bonds are to be purchased by Morgan Keegan & Company, Inc. (the "Underwriter"). The Underwriter has agreed, subject to certain conditions, to purchase the Bonds at an aggregate purchase price of $3,400,881.53 (which is equal to the principal amount of the Series 2010 Bonds less underwriting discount of $29,118.47). The Underwriter will be obligated to purchase all of the Series 2010 Bonds if any are purchased. The Underwriter has advised the Commission that it intends to make a public offering of the Series 2010 Bonds at the initial public offering price or prices set forth on the cover page hereof. The Underwriter, however, may offer and sell the Series 2010 Bonds (including to dealers depositing Series 2010 Bonds into investment trusts) at prices other than the public offering price or prices stated on the cover page hereof.

CONTINUING DISCLOSURE AGREEMENT

The Series 2010 Bonds are subject to Rule 15c2-12. In general, Rule 15c-2-12 prohibits an underwriter from purchasing or selling municipal securities in an initial offering unless it has determined that the issuer of such securities has committed to provide annually, certain information, including audited financial information, and notice of various events described in Rule 15c2-12, if material. In order to enable the Underwriter to comply with the provisions of Rule 15c2-12, the Commission will enter into a Continuing Disclosure Agreement (the "Disclosure Agreement") with the Trustee. Specifically, the Commission will covenant (1) annually to file the Commonwealth's annual financial information, including its audited financial statements, with the Municipal Securities Rulemaking Board (the "MSRB"), and the appropriate state information depository, if any, and (2) to provide notice in a timely manner of any of the following types of events with respect to the Series 2010 Bonds, if material: (i) principal and interest payment delinquencies; (ii) non-payment related defaults; (iii) unscheduled draws on debt service reserves reflecting financial difficulties; (iv) unscheduled draws on credit enhancements reflecting financial difficulties; (v) substitution of credit or liquidity providers or their failure to perform; (vi) adverse tax opinions or events affecting the tax-exempt status of the securities; (vii) modifications to rights of security holders; (viii) bond calls; (ix) defeasances; (x) release, substitution, or sale of property securing repayment of the securities; and (xi) rating changes. Effective on July 1, 2009, the MSRB became the sole NRMSIR and the Commission's filings with the MSRB will be in accordance with the MSRB's Electronic Municipal Market Access (EMMA) system, as applicable to the Disclosure Agreement. The Commission is already providing ongoing market disclosure as required by Rule 15c2-12 pursuant to agreements entered into in connection with other outstanding securities and has complied with requirements of Rule 15c2-12. The Commission is in compliance in all material respects with all previous undertakings with regard to Rule 15c2-12 to provide annual financial information or notices of material events pursuant to Rule 15c2-12.

OTHER MATTERS

This Official Statement has been prepared under the direction of the Executive Director of the Office of Financial Management.

The information set forth herein has been obtained from sources which are considered reliable. There is no guarantee that any of the assumptions, projections, expectations or estimates contained herein will ever be realized. All of the summaries of the statutes, documents and resolutions contained in this Official Statement are made subject to all of the provisions of such statutes, documents and resolutions. The summaries of the documents herein contained do not purport to be complete statements of such provisions and reference is made to such documents for further information. Reference is made to official documents in all respects.

This Official Statement has been approved, and its execution and delivery have been authorized, by the Commission and the State Agency.

THE COMMONWEALTH OF KENTUCKY
STATE PROPERTY AND BUILDINGS COMMISSION

By: *__/s/ F. Thomas Howard__*
F. Thomas Howard
Executive Director
Office of Financial Management
(Secretary to the Commission)

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EXHIBIT A

DEBT INFORMATION PERTAINING TO THE COMMONWEALTH OF KENTUCKY

COMMONWEALTH DEBT MANAGEMENT

Management

The Office of Financial Management ("OFM"), Finance and Administration Cabinet, has central responsibility for the issuance, management, review and approval of all debt issued by the Commonwealth and its agencies. Table I lists active issuing entities. OFM is also responsible for the coordination and monitoring of cash needs relative to debt activity, debt service payments and the development of a comprehensive long-term debt plan. OFM serves as primary staff to the State Property and Buildings Commission, the Kentucky Asset/Liability Commission, the Turnpike Authority of Kentucky and the Kentucky Local Correctional Facilities Construction Authority.

Structure

The Commonwealth's indebtedness is classified as either appropriation supported debt or non-appropriation supported debt.

Appropriation supported debt carries the name of the Commonwealth and is either (i) a general obligation of the State, or (ii) a lease revenue obligation of one of its debt issuing agencies created by the Kentucky General Assembly to finance various projects which is subject to state appropriation for all or a portion of the debt service on the bonds.

General obligation bonds pledge the full faith, credit and taxing power of the Commonwealth for the repayment of the debt. The Kentucky Constitution requires voter approval by general referendum prior to the issuance of general obligation bonds in amounts exceeding $500,000. Kentucky has not issued general obligation bonds since 1966. The Commonwealth has no general obligation bonds outstanding.

Project revenue notes and bonds are issued by various debt issuing authorities of the Commonwealth. The revenues produced by the projects funded by the debt are pledged as security for repayment of the debt. Project revenue debt is not a direct obligation of the Commonwealth. Project revenues are, in some cases, derived partially or solely from biennial appropriations of the General Assembly. In other cases the direct revenues generated from the project funded constitute the entire source of payment.

The payment of debt service by the state universities is enhanced by a state intercept provision that provides that in the event of a default, the Secretary of the Finance Cabinet is required to intercept any funds appropriated to the University but not yet disbursed and to remit those funds to the Trustee to remedy the default.

Non-appropriation or moral obligation debt carries the name of the Commonwealth for the benefit and convenience of other entities within the state. This type of indebtedness is a special obligation of the issuer, secured and payable solely from the sources pledged for the payment thereof and does not constitute a debt, liability, obligation or a pledge of the faith and credit of the Commonwealth. The General Assembly does not intend to appropriate any funds to fulfill the financial obligations represented by these types of indebtedness. Some issues covenant that in the event of a shortfall the issuer will request from the Governor and the General Assembly sufficient amounts to pay debt service. Certain Kentucky Higher Education Student Loan Corporation bonds, Kentucky Housing Corporation Multi-Family conduit bonds and Kentucky Infrastructure Authority Governmental Agencies Program bonds are not moral obligation debt.

Default Record

The Commonwealth has never defaulted in the payment of principal or interest on its general obligation indebtedness or its project revenue obligations.

TABLE I
ACTIVE DEBT ISSUING ENTITIES

ENTITY	STATUTORY AUTHORITY/ PURPOSE	DEBT LIMITATIONS	RATING[1]
State Property and Buildings Commission	**KRS 56.450** Provide financing for capital construction projects and financing programs approved by the General Assembly.	Cannot incur debt without prior approval of projects and appropriation of debt service by General Assembly.	Aa2/A+/AA-
Kentucky Asset/Liability Commission	**KRS 56.860** Provide financing of capital projects and cash flow borrowings to meet working capital needs of the state.	Cannot incur debt without prior approval of projects and appropriation of debt service by General Assembly, exclusive of cash flow borrowings within a fiscal year.	Varies
Turnpike Authority of Kentucky	**KRS 175.410-175.990** Construct, maintain, repair, and operate Turnpike projects, resource recovery roads and economic development roads	Cannot incur debt without prior approval of projects and appropriation of debt service by General Assembly.	Aa2/AA+/AA-
The State Universities (consisting of nine)	**KRS 56.495** Construct educational buildings and housing and dining facilities.	Cannot incur debt without prior approval of projects and appropriation of debt service by General Assembly.	Varies
Kentucky Housing Corporation	**KRS 198A** Make low interest mortgage loans and construction loans to increase the supply of housing for low and moderate income residents of the State.	Limited to $5.0 billion of debt outstanding	Aaa/AAA/NR
Kentucky Infrastructure Authority	**KRS 224A** Provide financial assistance to local governments for the construction or refinancing of infrastructure facilities and to provide loans to industries for construction of pollution control facilities.	Revolving Fund programs cannot incur debt without appropriation of debt service by the General Assembly. Without legislative approval, other programs are limited to debt outstanding of $500 million.	Aa2/A+/AA-[2]
Kentucky Higher Education Student Loan Corporation	**KRS 164A** Make guaranteed student loans to residents of the state to attend postsecondary institutions and to make loans to students attending postsecondary schools within the state.	Limited to $5.0 billion of debt outstanding.	NR/AAA/AAA (Sr. Series) NR/A/A (Subord.Series)[3]
School Facilities Construction Commission	**KRS 157.611-157.665** Assist local school districts with the financing and construction of school buildings. Finance the construction of vocational education facilities.	Cannot incur debt without appropriation of debt service by General Assembly.	Aa2
Kentucky Economic Development Finance Authority	**KRS 154** Issue industrial revenue bonds on behalf of industries, hospitals, and commercial enterprises in the state. Provide low interest loans to developing businesses. Provide financing and tax credits to manufacturing entities expanding or locating facilities in the state.	None.	Varies
Kentucky Local Correctional Facilities Construction Authority	**KRS 441.605-441.695** Provide an alternative method of constructing, improving, repairing and financing local jails.	Limited to the level of debt service supported by court fees pledged as repayment for the bonds.	Baa1/A/NR (National Insured)

(1) Ratings, where applicable, include Moody's, Standard & Poor's, and Fitch. Certain State Property and Buildings Commission Agency Fund Revenue Bonds may have ratings different than those identified above. The ratings displayed in Table I reflect the recalibrated ratings to date by Moody's and Fitch.
(2) The Kentucky Infrastructure Authority's Governmental Agencies Program Revenue Bonds are rated "AA-" by Standard & Poor's and are backed by the loans of the borrowers. The Kentucky Infrastructure Authority's Wastewater and Drinking Water Revolving Fund Revenue Bonds Series 2010A are rated "Aaa/AAA/AAA" by Moody's, Standard & Poor's, and Fitch, respectively.
(3) The Kentucky Higher Education Student Loan Corporation, Series 2008 A-1, A-2, and A-3 Bonds are rated A+ by Standard & Poor's due to the downgrade of the letter of credit provider for the transaction.

EXHIBIT B

BOOK-ENTRY-ONLY SYSTEM

The Series 2010 Bonds initially will be issued solely in book-entry form to be held in the book-entry-only system maintained by The Depository Trust Company ("DTC"), New York, New York. So long as such book-entry system is used, only DTC will receive or have the right to receive physical delivery of Series 2010 Bonds and, except as otherwise provided herein with respect to tenders by Beneficial Owners (as hereinafter defined) of beneficial ownership interests, Beneficial Owners will not be or be considered to be, and will not have any rights as, owners or holders of the Series 2010 Bonds under the Resolution.

The following information about the book-entry-only system applicable to the Series 2010 Bonds has been supplied by DTC. Neither the Commission, the Trustee nor the Underwriter makes any representations, warranties or guarantees with respect to its accuracy or completeness.

DTC will act as securities depository for the Series 2010 Bonds. The Series 2010 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Series 2010 Bond certificate will be issued for each maturity of the Series 2010 Bonds, in the aggregate principal amount of the Series 2010 Bonds and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, FICC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of Series 2010 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2010 Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2010 Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2010 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Series 2010 Bonds, except in the event that use of the book-entry system for the Series 2010 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2010 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Series 2010 Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2010 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2010 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Beneficial Owners of Series 2010 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2010 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Series 2010 Bond documents. For example, Beneficial Owners of Series 2010 Bonds may wish to ascertain that the nominee holding the Series 2010 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Trustee and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Series 2010 Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Series 2010 Bonds unless authorized by a Direct Participant in accordance with DTC's MNI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Commission as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Series 2010 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions and interest payments on the Series 2010 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Commission or the Trustee, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with Series 2010 Bonds held for the accounts of customers in bearer form or registered in "street name" and will be the responsibility of such Participant and not of DTC or its nominee, the Trustee or the Commission, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions and interest payments on the Series 2010 Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Commission or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Series 2010 Bonds at any time by giving reasonable notice to the Commission or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, Series 2010 Bond certificates are required to be printed and delivered.

The Commission may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Series 2010 Bond certificates will be printed and delivered.

NEITHER THE COMMISSION NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO ANY DIRECT PARTICIPANT, INDIRECT PARTICIPANT OR ANY BENEFICIAL OWNER OR ANY OTHER PERSON NOT SHOWN ON THE REGISTRATION BOOKS OF THE TRUSTEE AS BEING A HOLDER WITH RESPECT TO: (1) THE SERIES 2010 BONDS; (2) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT; (3) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL OR REDEMPTION PRICE OF OR INTEREST ON THE SERIES 2010 BONDS; (4) THE DELIVERY BY ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY NOTICE TO ANY BENEFICIAL OWNER WHICH IS REQUIRED OR PERMITTED UNDER THE TERMS OF THE INDENTURE TO BE GIVEN TO HOLDERS; (5) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF THE SERIES 2010 BONDS; OR (6) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS HOLDER.

Each Beneficial Owner for whom a Direct Participant or Indirect Participant acquires an interest in the Series 2010 Bonds, as nominee, may desire to make arrangements with such Direct

Participant or Indirect Participant to receive a credit balance in the records of such Direct Participant or Indirect Participant, to have all notices of redemption or other communications to or by DTC which may affect such Beneficial Owner forwarded in writing by such Direct Participant or Indirect Participant, and to have notification made of all debt service payments.

Beneficial Owners may be charged a sum sufficient to cover any tax, fee, or other governmental charge that may be imposed in relation to any transfer or exchange of their interests in the Series 2010 Bonds.

The Commission cannot and does not give any assurances that DTC, Direct Participants, Indirect Participants or others will distribute payments of debt service on the Series 2010 Bonds made to DTC or its nominee as the registered owner, or any redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or that DTC, Direct Participants or Indirect Participants will serve and act in the manner described in this Official Statement.

The information in this EXHIBIT B concerning DTC and DTC's book-entry system has been obtained from sources that the Commission and the Underwriter believe to be reliable, but neither the Commission nor the Underwriter take any responsibility for the accuracy thereof.

EXHIBIT C

FORM OF BOND COUNSEL OPINION FOR THE SERIES 2010 BONDS

[To be printed on the Letterhead of Bond Counsel and dated the Date of Issuance]

Commonwealth of Kentucky
State Property and Buildings Commission
Frankfort, Kentucky 40601

Re: $3,430,000 Commonwealth of Kentucky State Property and Buildings Commission Taxable Agency Fund Revenue Bonds, Project No. 97

Ladies and Gentlemen:

We have examined a certified copy of the transcript of proceedings of the Commonwealth of Kentucky State Property and Buildings Commission (the "Commission") relating to the authorization, sale and issuance of its Taxable Agency Fund Revenue Bonds, Project No. 97 in the aggregate principal amount of $3,430,000 (the "Bonds"), dated on original issuance as of the date of their delivery.

The Bonds have been authorized and issued pursuant to the Constitution and laws of the Commonwealth, including particularly Chapter 56 and Sections 58.010 to 58.140 of the Kentucky Revised Statutes (collectively, the "Act") and in accordance with the bond resolution of the Commission adopted on March 15, 2010 (the "Resolution") for the purpose of (i) providing financing for a project (the "Project"); (ii) funding a debt service reserve fund with respect to the Bonds and (iii) paying the costs of issuing the Bonds. The Project has been leased to the Finance and Administration Cabinet of the Commonwealth of Kentucky (the "Cabinet") and the Department of Military Affairs of the Commonwealth of Kentucky, a department and agency of the Commonwealth of Kentucky (the "State Agency"), as co-lessees (collectively the "Lessees") pursuant to a lease dated as of July 1, 2010 by and between the Commission and the Lessees (the "Lease").

We have examined such portions of the Constitution and statutes of the United States, the Constitution and statutes of the Commonwealth, and such applicable court decisions, regulations, rulings and opinions as we have deemed necessary or relevant for the purposes of the opinions set forth below.

We have also examined records relating to the authorization and original issuance of the Bonds, including a specimen Bond and other relevant matters. We have also made such investigation as we have deemed necessary for the purposes of such opinions, and relied on certificates of officials of the Commonwealth, the Commission, the Cabinet and the State Agency as to certain factual matters.

We have assumed the authenticity of all documents submitted to us as originals, the legal capacity of natural persons and the conformity to the originals of all documents submitted to us as copies. We have assumed that parties other than the Commission and the Lessees had the requisite power and authority to enter into and perform all obligations of all documents to which they are parties. We have assumed the due authorization by all requisite action, and the execution and delivery by such other parties of such documents, and the validity and binding effect thereof on such other parties. We have relied for purposes of the opinions set forth below on the representations and warranties made in such documents by all parties thereto.

Based on the foregoing, and in reliance thereon, and on the basis of our examination of such other matters of fact and questions of law as we have deemed relevant in the circumstances, it is our opinion, under the law existing on the date of this opinion, that:

1. The Commission is an independent agency and public body corporate of the Commonwealth, duly organized and validly existing under the laws of the Commonwealth. The Commission has the legal right and authority to issue the Bonds.

2. The Resolution has been duly adopted by the Commission and is the valid and binding obligation of the Commission enforceable in accordance with its terms.

3. The Bonds have been duly authorized and issued by the Commission and are the valid and binding limited and special obligations of the Commission enforceable in accordance with their terms. The Bonds are payable as to principal and interest from and are secured by a pledge of the revenues to be derived by the Commission from the Lease. A sufficient portion of the revenues have been pledged to pay the interest on and principal of the Bonds as the same become due.

4. The Lease has been duly authorized, executed and delivered by the Lessees. The Lease is the legal, valid and binding obligation of the Lessees. The Lease is enforceable in accordance with its terms.

5. The Bonds are special and limited obligations of the Commission, payable solely and only from the revenues provided for by the Resolution. The Bonds do not pledge the general credit or taxing power, if any, of the Commonwealth, the Commission, the Cabinet, the State Agency or any other agency or political subdivision of the Commonwealth.

6. The Bonds are not secured by a pledge of, or lien on, any properties constituting the Project, but are payable as to principal and interest solely and only from and are secured by a pledge of the revenues to be derived from the Lease. The ability of the Lessees to make payments under the Lease is dependent on legislative appropriations to the Cabinet or the State Agency. The Lease has a current term ending June 30, 2012, with the right to renew the Lease for additional successive terms of two years each until the Bonds and the interest thereon have been paid and discharged.

7. Under laws, regulations, rulings and judicial decisions in effect as of the date hereof, interest on the on the Bonds is not excludible from gross income for Federal income tax purposes. We express no other opinion as to the federal or state tax consequences of purchasing, holding or disposing of the Bonds.

8. Interest on the Bonds is exempt from income taxation and the Bonds are exempt from ad valorem taxation by the Commonwealth and any of its political subdivisions.

Our opinion set forth above is subject to the qualification that the enforceability of the Resolution, the Lease, the Bonds and agreements relating thereto may be limited by bankruptcy, reorganization, moratorium, insolvency, or other similar laws relating to or affecting the enforcement of creditors' rights, and to the exercise of judicial discretion in accordance with general equitable principles.

In rendering our opinion as to the due authorization, execution and delivery of the Lease, we have relied on opinions of counsel to the Cabinet and the State Agency.

Very truly yours,

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